

UNDERWOOD COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2009

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Underwood Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2008 election)		
Keith Petersen	President	2009
Neil Darrington	Vice President	2011
Tim Schwery	Board Member	2008
Julie Handbury	Board Member	2011
Greg Konsor	Board Member	2009
Board of Education (After September 2008 election)		
Neil Darrington	President	2011
Greg Konsor	Vice President	2009
Bill Bracker	Board Member	2011
Julie Handbury	Board Member	2011
Kieth Peterson	Board Member	2009
School Officials		
Edward Hawks	Superintendent	2009
Shelley Naig	District Secretary and Treasurer	2009
William Hughes, Jr.	Attorney	2009
James Hanks	Attorney	2009

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3060
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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, 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, 2009, 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, 2009, 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 March 1, 2010 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 13 and 35 through 36 are not required parts of the basic financial statements, but are supplementary

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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 five years ended June 30, 2008 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 7, 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.

March 1, 2010

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, 2009. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$6,319,716 in fiscal 2008 to \$6,879,871 in fiscal 2009, while General Fund expenditures increased from \$6,126,570 in fiscal 2008 to \$6,908,088 in fiscal 2009. This resulted in a decrease in the District's General Fund balance from \$805,124 in fiscal 2008 to \$784,833 in fiscal 2009, a 2.52% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in property taxes and state sources of revenue in fiscal 2009. The increase in expenditures was due primarily to increases in instruction expenditures.
- The District received \$632,911 in statewide sales and services tax during the year.
- October 2008 Certified Enrollment count resulted in a decrease of 9.2 students, representing a 1.31% decrease 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.

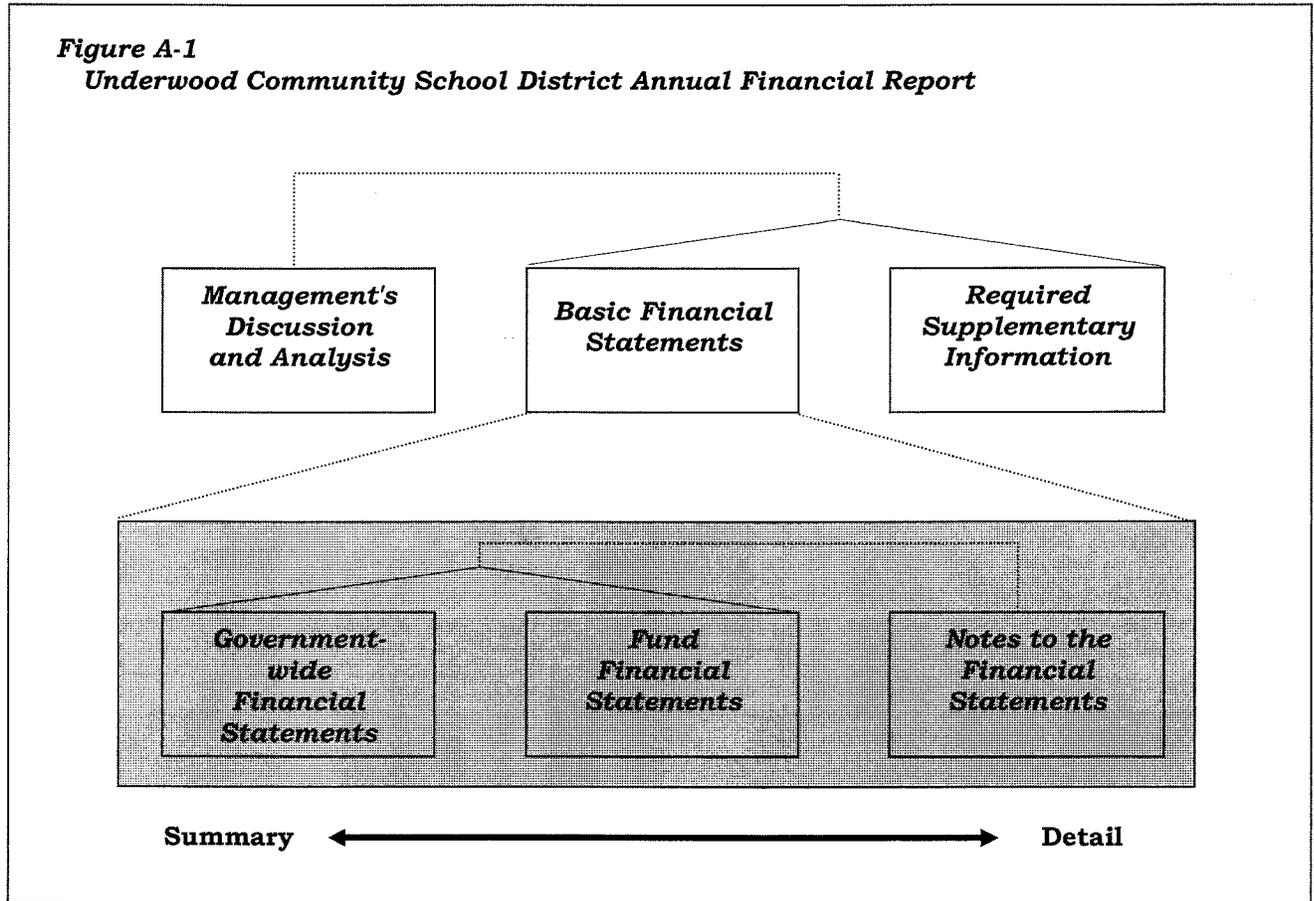


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary 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, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
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 revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
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	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	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
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	All additions and deductions 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 three 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, Capital Projects and Debt Service.

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

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include the Private-Purpose Trust Fund.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

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 total net assets at June 30, 2009 compared to June 30, 2008.

Figure A-3 Condensed Statement of Net Assets							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2009	2008	2009	2008	2009	2008	2008-09
Current and other assets	\$ 5,911,155	7,854,695	100,405	97,282	6,011,560	7,951,977	-24.40%
Capital assets	9,152,529	6,765,225	20,689	5,682	9,173,218	6,770,907	35.48%
Total assets	15,063,684	14,619,920	121,094	102,964	15,184,778	14,722,884	3.14%
Long-term liabilities	5,187,047	5,369,658	-	-	5,187,047	5,369,658	-3.40%
Other liabilities	4,453,329	3,976,074	25,950	21,697	4,479,279	3,997,771	12.04%
Total liabilities	9,640,376	9,345,732	25,950	21,697	9,666,326	9,367,429	3.19%
Net assets:							
Invested in capital assets, net of related debt	4,002,529	3,332,013	20,689	5,682	4,023,218	3,337,695	20.54%
Restricted	688,412	1,187,145	-	-	688,412	1,187,145	-42.01%
Unrestricted	732,367	755,030	74,455	75,585	806,822	830,615	-2.86%
Total net assets	\$ 5,423,308	5,274,188	95,144	81,267	5,518,452	5,355,455	3.04%

The District's combined net assets increased by \$162,997 or 3.04% 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 decreased \$498,733 or 42.01% from the prior year. The decrease was primarily due to the decrease in the restricted part of the Capital Projects Fund balance.

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 \$23,793 or 2.86%. The decrease was primarily due to the decrease in the General Fund balance.

Figure A-4 shows the changes in net assets for the years ended June 30, 2009 and June 30, 2008.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2009	2008	2009	2008	2009	2008	2008-09
Revenues:							
Program revenues:							
Charges for services	\$ 911,687	869,705	313,343	314,057	1,225,030	1,183,762	3.49%
Operating grants and contributions and restricted interest	959,976	753,308	106,656	98,218	1,066,632	851,526	25.26%
General revenues:							
Property tax	2,926,440	2,853,877	-	-	2,926,440	2,853,877	2.54%
Statewide sales and services tax	632,911	532,788	-	-	632,911	532,788	0.00%
Unrestricted state grants	2,787,459	2,668,381	-	-	2,787,459	2,668,381	4.46%
Other	272,001	358,757	39	399	272,040	359,156	-24.26%
Transfers	(17,115)	-	17,115	-	-	-	100.00%
Total revenues	8,473,359	8,036,816	437,153	412,674	8,910,512	8,449,490	5.46%
Program expenses:							
Governmental activities:							
Instruction	4,598,198	3,940,725	-	-	4,598,198	3,940,725	16.68%
Support services	2,472,813	2,325,366	-	-	2,472,813	2,325,366	6.34%
Non-instructional programs	-	-	423,276	367,245	423,276	367,245	15.26%
Other expenses	1,253,228	529,456	-	-	1,253,228	529,456	136.70%
Total expenses	8,324,239	6,795,547	423,276	367,245	8,747,515	7,162,792	22.12%
Change in net assets	149,120	1,241,269	13,877	45,429	162,997	1,286,698	-87.33%
Net assets beginning of year	5,274,188	4,032,919	81,267	35,838	5,355,455	4,068,757	31.62%
Net assets end of year	\$ 5,423,308	5,274,188	95,144	81,267	5,518,452	5,355,455	3.04%

In fiscal 2009, property tax, statewide sales and services tax and unrestricted state grants account for 74.90% of the revenue from governmental activities while charges for services and operating grants and contributions account for 96.08% of the revenue from business type activities.

The District's total revenues were approximately \$8.91 million of which \$8.47 million was for governmental activities and \$.44 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 5.46% in revenues, and a 22.12% increase in expenses. The increase in expenses was related to the increase in other expenses which includes facilities acquisitions and long-term debt retirement.

Governmental Activities

Revenues, net transfers for governmental activities were \$8,473,359 and expenses were \$8,324,239.

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

	Total Cost of Services			Net Cost of Services		
	2009	2008	Change 2008-09	2009	2008	Change 2008-09
Instruction	\$ 4,598,198	3,940,725	16.68%	3,017,426	2,583,515	16.80%
Support services	2,472,813	2,325,366	6.34%	2,445,189	2,291,627	6.70%
Other expenses	1,253,228	529,456	136.70%	989,961	297,392	232.88%
Totals	\$ 8,324,239	6,795,547	22.50%	6,452,576	5,172,534	24.75%

For the year ended June 30, 2009:

- The cost financed by users of the District's programs was \$911,687.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$959,976.
- The net cost of governmental activities was financed with \$2,926,440 in property tax, \$632,911 in statewide sales and service tax, \$2,787,459 in unrestricted state grants, \$50,408 in interest income and \$221,593 in other general revenues.

Business type Activities

Revenues of the District's business type activities were \$437,153 and expenses were \$423,276. 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, investment income and a capital contribution from the Capital Projects Fund.

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 \$1,492,623, below last year's ending fund balances of \$3,914,870. However, the primary reason for the decrease was the decrease in the fund balance of the Capital Projects due to the construction costs of the Middle School Addition and the High School upgrades.

Governmental Fund Highlights

- The District's General Fund balance decreased from \$805,124 on June 30, 2008 to \$784,833 on June 30, 2009. The fluctuation in the District's General Fund financial position is the product of many factors. Increases in other local sources and state grant revenues during the year resulted in an increase in total revenues. However, increased instruction costs caused expenditures to outpace revenues resulting in a decline in the

General Fund balance. Overall, the District's General Fund balance decreased by \$20,291.

- The Capital Projects fund balance decreased during the current year, from \$2,967,918 to \$537,512. The decrease was due to the construction costs for the Middle School Addition and the High School upgrades.

Proprietary Fund Highlights

The Enterprise Funds net assets increased from \$81,267 at June 30, 2008 to \$95,144 at June 30, 2009, representing an increase of 17.08%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$163,080 more than budgeted revenues, a variance of 1.87%. The most significant variance resulted from the District receiving more in federal 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.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, the District had invested \$9,173,218, 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 increase of 35.48% from last year. More detailed information about capital assets is available in Note 3 to the financial statements. Depreciation expense for the year was \$307,278.

The original cost of the District's capital assets was \$13,238,910. Governmental funds account for \$13,187,117 with the remainder of \$51,793 in the Proprietary, School Nutrition Fund.

The largest percentage changes in capital asset activity during the year occurred in the buildings and construction in progress categories. The buildings increased from \$832,216 at June 30, 2008 to \$8,694,674 at June 30, 2009. The construction in progress totaled \$0 at June 30, 2009, compared to \$5,514,493 reported at June 30, 2008. These changes resulted from the New Middle School/Elementary Expansion and High School Upgrade Projects becoming capitalized upon completion.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2009	2008	2009	2008	2009	2008	2008-09
Land	\$ 97,590	97,590	-	-	97,590	97,590	0.00%
Construction in progress	-	5,514,493	-	-	-	5,514,493	-100.00%
Buildings	8,694,674	832,216	-	-	8,694,674	832,216	944.76%
Land improvements	146,139	153,775	-	-	146,139	153,775	-4.97%
Machinery and equipment	214,126	167,151	20,689	5,682	234,815	172,833	35.86%
Total	\$ 9,152,529	6,765,225	20,689	5,682	9,173,218	6,770,907	35.48%

Long-Term Debt

At June 30, 2009, the District had \$5,187,047 in general and other long-term debt outstanding. This represents a decrease of 3.40% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 4 to the financial statements.

The District had total outstanding General Obligation Bonds payable of \$5,150,000 at June 30, 2009.

The District had total outstanding Early Retirement payable from the Special Revenue - Management Levy Fund of \$37,047 at June 30, 2009.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2009	2008	2008-09
General obligation bonds	\$ 5,150,000	5,355,000	-3.83%
Early retirement	37,047	14,658	152.74%
Total	\$ 5,187,047	5,369,658	-3.40%

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.
- Federal legislation with respect to student achievement in the future years may result in sanctions that could have financial implications for the general fund operating budget. The "No Child Left Behind" act of 2001 applies sanctions to underperforming schools that, if the school remains under-performing (as defined by the act) allows the parents of pupils in the school to move to another school, transferring their funding to the new school. This

act applies to individual school facilities and does not necessarily apply to school districts, however, the revenue impact to a school district could be material if the school district has a school facility that under-performs and starts to lose enrollment.

- With the September 25, 2009 ten percent across-the-board reduction, the District will continue to implement cost-saving measures and develop a plan for the remainder of the 2009/2010 year. The Board of Education will determine what cost-saving measures we will implement and how much we can spend from our reserves.

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

BASIC FINANCIAL STATEMENTS

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,301,681	92,744	2,394,425
Receivables:			
Property tax:			
Delinquent	30,724	-	30,724
Succeeding year	3,219,726	-	3,219,726
Accounts	114,115	-	114,115
Due from other governments	244,909	-	244,909
Inventories	-	7,661	7,661
Capital assets, net of accumulated depreciation	9,152,529	20,689	9,173,218
Total assets	15,063,684	121,094	15,184,778
Liabilities			
Accounts payable	545,908	-	545,908
Salaries and benefits payable	652,898	22,639	675,537
Accrued interest payable	34,797	-	34,797
Deferred revenue:			
Succeeding year property tax	3,219,726	-	3,219,726
Unearned revenues	-	3,311	3,311
Long-term liabilities:			
Portion due within one year:			
General obligation bonds	215,000	-	215,000
Early Retirement	37,047	-	37,047
Portion due after one year:			
General obligation bonds	4,935,000	-	4,935,000
Total liabilities	9,640,376	25,950	9,666,326
Net Assets			
Invested in capital assets, net of related debt	4,002,529	20,689	4,023,218
Restricted for:			
Categorical funding	17,669	-	17,669
Debt service	3,335	-	3,335
Capital projects	537,512	-	537,512
Management levy	30,269	-	30,269
Physical plant and equipment levy	11,660	-	11,660
Other special revenue purposes	87,967	-	87,967
Unrestricted	732,367	74,455	806,822
Total net assets	\$ 5,423,308	95,144	5,518,452

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular	\$ 3,255,690	504,753	612,550	(2,138,387)	-	(2,138,387)
Special	618,625	108,343	58,961	(451,321)	-	(451,321)
Other	723,883	296,165	-	(427,718)	-	(427,718)
	4,598,198	909,261	671,511	(3,017,426)	-	(3,017,426)
Support services:						
Student	150,195	-	-	(150,195)	-	(150,195)
Instructional staff	216,595	-	-	(216,595)	-	(216,595)
Administration	879,650	-	-	(879,650)	-	(879,650)
Operation and maintenance of plant	805,932	-	-	(805,932)	-	(805,932)
Transportation	420,441	2,426	25,198	(392,817)	-	(392,817)
	2,472,813	2,426	25,198	(2,445,189)	-	(2,445,189)
Other expenditures:						
Facilities acquisitions	536,894	-	-	(536,894)	-	(536,894)
Long-term debt interest	216,442	-	-	(216,442)	-	(216,442)
AEA flowthrough	263,267	-	263,267	-	-	-
Depreciation(unallocated)*	236,625	-	-	(236,625)	-	(236,625)
	1,253,228	-	263,267	(989,961)	-	(989,961)
Total governmental activities	8,324,239	911,687	959,976	(6,452,576)	-	(6,452,576)
Business Type activities:						
Non-instructional programs:						
Nutrition services	349,546	242,299	106,656	-	(591)	(591)
Latch Key	73,730	71,044	-	-	(2,686)	(2,686)
Total business type activities	423,276	313,343	106,656	-	(3,277)	(3,277)
Total	\$ 8,747,515	1,225,030	1,066,632	(6,452,576)	(3,277)	(6,455,853)
General Revenues and Transfers:						
General Revenues:						
Property tax levied for:						
General purposes				\$ 2,442,802	-	2,442,802
Debt service				422,170	-	422,170
Capital outlay				61,468	-	61,468
Statewide sales and services tax				632,911	-	632,911
Unrestricted state grants				2,787,459	-	2,787,459
Unrestricted investment earnings				50,408	39	50,447
Other general revenues				221,593	-	221,593
Transfers				(17,115)	17,115	-
Total general revenues and transfers				6,601,696	17,154	6,618,850
Change in net assets				149,120	13,877	162,997
Net assets beginning of year				5,274,188	81,267	5,355,455
Net assets end of year				\$ 5,423,308	95,144	5,518,452

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

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments	\$ 1,243,184	894,797	163,700	2,301,681
Receivables:				
Property tax:				
Delinquent	24,146	-	6,578	30,724
Succeeding year	2,570,917	-	648,809	3,219,726
Accounts	114,115	-	-	114,115
Due from other governments	142,215	102,694	-	244,909
Total assets	\$ 4,094,577	997,491	819,087	5,911,155
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 85,929	459,979	-	545,908
Salaries and benefits payable	652,898	-	-	652,898
Deferred revenue:				
Succeeding year property tax	2,570,917	-	648,809	3,219,726
Total liabilities	3,309,744	459,979	648,809	4,418,532
Fund balances:				
Reserved for:				
Categorical funding	17,669	-	-	17,669
Debt service	-	-	3,335	3,335
Unreserved	767,164	537,512	166,943	1,471,619
Total fund balances	784,833	537,512	170,278	1,492,623
Total liabilities and fund balances	\$ 4,094,577	997,491	819,087	5,911,155

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009

Total fund balances of governmental funds (page 16)	\$ 1,492,623
<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.	9,152,529
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(34,797)
Long-term liabilities, including bonds payable and early retirement payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(5,187,047)</u>
Net assets of governmental activities (page 14)	<u>\$ 5,423,308</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, 2009

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 2,293,064	632,911	633,376	3,559,351
Tuition	582,847	-	-	582,847
Other	256,886	36,135	300,367	593,388
State sources	3,559,452	-	361	3,559,813
Federal sources	187,622	-	-	187,622
Total revenues	<u>6,879,871</u>	<u>669,046</u>	<u>934,104</u>	<u>8,483,021</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	3,217,076	-	17,475	3,234,551
Special	618,625	-	-	618,625
Other	451,375	-	273,710	725,085
	<u>4,287,076</u>	<u>-</u>	<u>291,185</u>	<u>4,578,261</u>
Support services:				
Student	150,195	-	-	150,195
Instructional staff	216,595	-	-	216,595
Administration	870,390	1,195	6,709	878,294
Operation and maintenance of plant	672,140	-	121,997	794,137
Transportation	448,425	-	24,978	473,403
	<u>2,357,745</u>	<u>1,195</u>	<u>153,684</u>	<u>2,512,624</u>
Other expenditures:				
Facilities acquisitions	-	3,098,257	37,891	3,136,148
Long-term debt:				
Principal	-	-	205,000	205,000
Interest	-	-	217,894	217,894
AEA flowthrough	263,267	-	-	263,267
	<u>263,267</u>	<u>3,098,257</u>	<u>460,785</u>	<u>3,822,309</u>
Total expenditures	<u>6,908,088</u>	<u>3,099,452</u>	<u>905,654</u>	<u>10,913,194</u>
Excess(deficiency) of revenues over(under) expenditures	(28,217)	(2,430,406)	28,450	(2,430,173)
Other financing sources:				
Proceeds from the sale of equipment	7,926	-	-	7,926
Total other financing sources	<u>7,926</u>	<u>-</u>	<u>-</u>	<u>7,926</u>
Net change in fund balances	(20,291)	(2,430,406)	28,450	(2,422,247)
Fund balance beginning of year	805,124	2,967,918	141,828	3,914,870
Fund balance end of year	<u>\$ 784,833</u>	<u>537,512</u>	<u>170,278</u>	<u>1,492,623</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, 2009

Net change in fund balances - total governmental funds(page 18) \$ (2,422,247)

*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	\$ 2,692,947	
Depreciation expense	(305,170)	
Loss on disposal	(473)	2,387,304

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 205,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 1,452

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, as follows:

Early Retirement	(22,389)
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Changes in net assets of governmental activities(page 15) \$ 149,120

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2009

	School Nutrition	Latch Key	Total
Assets			
Cash and pooled investments	\$ 30,866	61,878	92,744
Inventories	7,661	-	7,661
Capital assets, net of accumulated depreciation	20,689	-	20,689
Total assets	59,216	61,878	121,094
Liabilities			
Salaries and benefits payable	18,499	4,140	22,639
Unearned revenue	3,311	-	3,311
Total liabilities	21,810	4,140	25,950
Net Assets			
Invested in capital assets	20,689	-	20,689
Unrestricted	16,717	57,738	74,455
Total net assets	\$ 37,406	57,738	95,144

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2009

	School Nutrition	Latch Key	Total
Operating revenues:			
Local sources:			
Charges for services	\$ 242,299	71,044	313,343
Operating expenses:			
Non-instructional programs:			
Salaries	114,627	45,820	160,447
Benefits	15,941	4,906	20,847
Services	1,687	-	1,687
Supplies	214,209	7,034	221,243
Other	974	15,970	16,944
Depreciation	2,108	-	2,108
Total operating expenses	349,546	73,730	423,276
Operating loss	(107,247)	(2,686)	(109,933)
Non-operating revenues:			
State sources	4,459	-	4,459
Federal sources	102,197	-	102,197
Interest income	39	-	39
Total non-operating revenues	106,695	-	106,695
Change in net assets before capital contributions	(552)	(2,686)	(3,238)
Capital contributions	17,115	-	17,115
Change in net assets	16,563	(2,686)	13,877
Net assets beginning of year	20,843	60,424	81,267
Net assets end of year	\$ 37,406	57,738	95,144

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2009

	School Nutrition	Latch Key	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 240,503	-	240,503
Cash received from miscellaneous operating activities	2,333	71,044	73,377
Cash payments to employees for services	(127,084)	(50,397)	(177,481)
Cash payments to suppliers for goods or services	(196,839)	(23,004)	(219,843)
Net cash used in operating activities	(81,087)	(2,357)	(83,444)
Cash flows from non-capital financing activities:			
State grants received	4,459	-	4,459
Federal grants received	79,190	-	79,190
Net cash provided by non-capital financing activities	83,649	-	83,649
Cash flows from investing activities:			
Interest on investments	39	-	39
Net increase(decrease) in cash and cash equivalents	2,601	(2,357)	244
Cash and cash equivalents at beginning of year	28,265	64,235	92,500
Cash and cash equivalents at end of year	\$ 30,866	61,878	92,744
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	\$ (107,247)	(2,686)	(109,933)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Commodities consumed	23,007	-	23,007
Depreciation	2,108	-	2,108
Increase in inventories	(2,976)	-	(2,976)
Decrease in accounts receivable	97	-	97
Increase in salaries and benefits payable	3,484	329	3,813
Increase in unearned revenue	440	-	440
Net cash used in operating activities	\$ (81,087)	(2,357)	(83,444)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and pooled investments	\$ 30,866	61,878	92,744
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
During the year ended June 30, 2009, the District received Federal commodities valued at \$23,007.			
SEE NOTES TO FINANCIAL STATEMENTS.			

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2009

	<u>Private Purpose Trust Scholarship</u>
Assets	
Cash and pooled investments	\$ 18,102
Total assets	<u>18,102</u>
Liabilities	<u>-</u>
Net Assets	
Reserved for scholarships	<u>\$ 18,102</u>

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2009

		Private Purpose Trust Scholarship
Additions:		
Local sources:		
Gifts and contributions	\$	610
Interest income		346
Total additions		956
 Deductions:		
Instruction:		
Scholarships awarded		754
Total deductions		754
 Change in net assets		 202
 Net assets beginning of year		 17,900
 Net assets end of year	\$	 18,102

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(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 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 plus the unspent bond proceeds 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 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 Funds, School Nutrition Fund and Latch Key and the Internal Service 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.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary fund includes the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund 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 Balances

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, 2007 assessed property valuations; is for the tax

accrual period July 1, 2008 through June 30, 2009 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2008.

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.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

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 Balances - 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.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2009 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	\$ 79,868

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

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

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

(3) Capital Assets

Capital assets activity for the year ended June 30, 2009 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 97,590	-	-	97,590
Construction in progress	5,514,493	2,575,250	8,089,743	-
Total capital assets not being depreciated	5,612,083	2,575,250	8,089,743	97,590
Capital assets being depreciated:				
Buildings	2,811,794	8,089,743	170,000	10,731,537
Land improvements	598,124	1,704	-	599,828
Machinery and equipment	1,685,650	115,993	43,481	1,758,162
Total capital assets being depreciated	5,095,568	8,207,440	213,481	13,089,527
Less accumulated depreciation for:				
Buildings	1,979,578	227,285	170,000	2,036,863
Land improvements	444,349	9,340	-	453,689
Machinery and equipment	1,518,499	68,545	43,008	1,544,036
Total accumulated depreciation	3,942,426	305,170	213,008	4,034,588
Total capital assets being depreciated, net	1,153,142	7,902,270	473	9,054,939
Governmental activities capital assets, net	\$ 6,765,225	10,477,520	8,090,216	9,152,529
Business type activities:				
Machinery and equipment	\$ 34,678	17,115	-	51,793
Less accumulated depreciation	28,996	2,108	-	31,104
Business type activities capital assets, net	\$ 5,682	15,007	-	20,689

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 6,100
Other		8,630
Support services:		
Administration		1,356
Operation and maintenance of plant		13,328
Transportation		39,131
		<u>68,545</u>
Unallocated depreciation		<u>236,625</u>
		<u>\$ 305,170</u>
Business-type activities:		
Food services		<u>\$ 2,108</u>

(4) Long-Term Liabilities

A summary of changes in long-term debt for the year ended June 30, 2009 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 5,355,000	-	205,000	5,150,000	215,000
Early retirement	14,658	37,047	14,658	37,047	37,047
Total	<u>\$ 5,369,658</u>	<u>37,047</u>	<u>219,658</u>	<u>5,187,047</u>	<u>252,047</u>

General Obligation Bonds Payable

Details of the District's June 30, 2009 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Bond Issue of May 1, 2003				
	Interest Rates	Principal	Interest	Total	
2010	4.25	\$ 215,000	208,781	423,781	
2011	4.25	220,000	199,644	419,644	
2012	4.25	230,000	190,293	420,293	
2013	4.25	240,000	180,518	420,518	
2014	4.00	250,000	170,318	420,318	
2015-2019	4.00	1,425,000	692,390	2,117,390	
2020-2024	4.00	1,755,000	381,790	2,136,790	
2025-2026	4.00-4.125	815,000	50,236	865,236	
Total		<u>\$ 5,150,000</u>	<u>2,073,970</u>	<u>7,223,970</u>	

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed ten years of continuous service to the District. Employees must complete an application, which is subject to be approval by the Board of Education. Early

retirement incentives are based on a percentage of the salary and the number of years of service. Early retirement benefits paid during the year ended June 30, 2009, totaled \$14,658. A liability has been recorded in the government-wide financial statements representing the District's commitment to fund non-current early retirement.

(5) 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 4.10% of their annual covered salary and the District is required to contribute 6.35% of annual covered salary. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$249,792, \$213,330 and \$198,393, respectively, equal to the required contributions for each year.

(6) Other Postemployment Benefits

GASB Statement No.45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, issued June 2004, will be effective for the District beginning with its year ending June 30, 2010. This Statement establishes standards for the measurement, recognition and display of other postemployment benefits expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports. The District is in the process of obtaining an actuarial opinion to be in compliance with GASB Statement No.45.

(7) Risk Management

The Underwood Community School District is a member in the Iowa School Employees Benefits Association, fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: life and long-term disability.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2009 were \$11,791.

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

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.

(8) 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 \$263,267 for the year ended June 30, 2009 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Categorical Funding

The District's ending balances for categorical funding by project as of June 30, 2009 are as follows:

Project	Amount
Market factor incentives	\$ 940
Professional development	315
Additional teacher contract day	2,882
Model core curriculum	8,073
Market factor	4,220
Salary improvement program	1,239
Total reserved for categorical funding	\$ 17,669

REQUIRED SUPPLEMENTARY INFORMATION

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES
 AND CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2009

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Funds	Funds		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 4,735,586	313,382	5,048,968	4,897,022	4,897,022	151,946
State sources	3,559,813	4,459	3,564,272	3,682,957	3,682,957	(118,685)
Federal sources	187,622	102,197	289,819	160,000	160,000	129,819
Total revenues	<u>8,483,021</u>	<u>420,038</u>	<u>8,903,059</u>	<u>8,739,979</u>	<u>8,739,979</u>	<u>163,080</u>
Expenditures/Expenses:						
Instruction	4,578,261	-	4,578,261	4,642,415	4,642,415	64,154
Support services	2,512,624	-	2,512,624	3,170,677	3,170,677	658,053
Non-instructional programs	-	423,276	423,276	524,438	524,438	101,162
Other expenditures	3,822,309	-	3,822,309	4,062,294	4,062,294	239,985
Total expenditures/expenses	<u>10,913,194</u>	<u>423,276</u>	<u>11,336,470</u>	<u>12,399,824</u>	<u>12,399,824</u>	<u>1,063,354</u>
Excess(deficiency) of revenues over(under) expenditures/expenses	(2,430,173)	(3,238)	(2,433,411)	(3,659,845)	(3,659,845)	(1,226,434)
Other financing sources, net	7,926	17,115	25,041	-	-	(25,041)
Excess(deficiency) of revenues and other financing sources over(under) expenditures/expenses	(2,422,247)	13,877	(2,408,370)	(3,659,845)	(3,659,845)	(1,251,475)
Balance beginning of year	3,914,870	81,267	3,996,137	3,790,403	3,790,403	205,734
Balance end of year	<u>\$ 1,492,623</u>	<u>95,144</u>	<u>1,587,767</u>	<u>130,558</u>	<u>130,558</u>	<u>1,457,209</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2009

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.

OTHER SUPPLEMENTARY INFORMATION

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2009

	Special Revenue Funds				Total	
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
Assets						
Cash and pooled investments	\$ 65,739	87,967	11,024	164,730	(1,030)	163,700
Receivables:						
Property tax:						
Delinquent	1,577	-	636	2,213	4,365	6,578
Succeeding year	160,001	-	64,628	224,629	424,180	648,809
Total assets	\$ 227,317	87,967	76,288	391,572	427,515	819,087
Liabilities and Fund Balances						
Liabilities:						
Deferred revenue:						
Succeeding year property tax	\$ 160,001	-	64,628	224,629	424,180	648,809
Total liabilities	160,001	-	64,628	224,629	424,180	648,809
Fund balances:						
Reserved for debt service	-	-	-	-	3,335	3,335
Unreserved	67,316	87,967	11,660	166,943	-	166,943
Total fund balances	67,316	87,967	11,660	166,943	3,335	170,278
Total liabilities and fund balances	\$ 227,317	87,967	76,288	391,572	427,515	819,087

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, 2009

	Special Revenue Funds				Debt Service	Total Other Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds		
REVENUES:						
Local sources:						
Local tax	\$ 149,738	-	61,468	211,206	422,170	633,376
Other	16,606	283,378	7	299,991	376	300,367
State sources	86	-	35	121	240	361
TOTAL REVENUES	166,430	283,378	61,510	511,318	422,786	934,104
EXPENDITURES:						
Current:						
Instruction:						
Regular	17,475	-	-	17,475	-	17,475
Other	-	273,710	-	273,710	-	273,710
	17,475	273,710	-	291,185	-	291,185
Support services:						
Administration	6,709	-	-	6,709	-	6,709
Operation and maintenance of plant	119,428	2,569	-	121,997	-	121,997
Transportation	-	-	24,978	24,978	-	24,978
	126,137	2,569	24,978	153,684	-	153,684
Other expenditures:						
Long-term Debt:						
Principal	-	-	-	-	205,000	205,000
Interest	-	-	-	-	217,894	217,894
Facilities acquisitions	-	-	37,891	37,891	-	37,891
	-	-	37,891	37,891	422,894	460,785
TOTAL EXPENDITURES	143,612	276,279	62,869	482,760	422,894	905,654
Net change in fund balance	22,818	7,099	(1,359)	28,558	(108)	28,450
Fund balance beginning of year	44,498	80,868	13,019	138,385	3,443	141,828
Fund balance end of year	\$ 67,316	87,967	11,660	166,943	3,335	170,278

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2009

Account	Balance Beginning of Year	Revenues/ Transfers in	Expendi- tures	Balance End of Year
Drama/Speech	\$ -	457	278	179
Band Activity	1,867	24,487	24,958	1,396
Track Activity	(522)	4,508	5,608	(1,622)
Basketball Activity	982	7,055	6,540	1,497
Football Activity	7,386	9,698	12,673	4,411
Baseball Activity	(1,189)	1,909	1,851	(1,131)
Wrestling Activity	625	2,826	4,042	(591)
Volleyball Activity	284	3,547	2,879	952
Softball Activity	772	4,018	3,508	1,282
Activity Tickets	(156)	11,004	9,015	1,833
Golf Activity	648	1,144	1,014	778
Elementary Art Club	4,318	6,452	7,467	3,303
Baseball Club	1,383	30,286	26,837	4,832
High School Art Club	830	6	481	355
High School Concessions	(574)	6,673	6,698	(599)
Cross Country Club	62	352	385	29
Boys Basketball Club	181	5,801	4,725	1,257
FFA Account	3,671	-	-	3,671
Interest	-	1,117	1,117	-
Girls Basketball Club	4,425	10,367	8,964	5,828
Library Club	572	-	80	492
Football Club	292	6,166	4,004	2,454
Drill Team	250	5,602	5,380	472
Middle School Pop/Juice	248	6,379	6,241	386
High School Pop/Juice	(607)	7,529	6,201	721
Revolving	(312)	856	857	(313)
Soda	221	-	-	221
High School Science Club	212	-	72	140
Softball Club	401	10,349	8,190	2,560
Elementary Student Council	2,141	-	-	2,141
Middle School Student Council	244	2,716	2,024	936
High School Student Council	392	989	854	527
High School Boys Track Club	-	845	634	211
FCCLA/FHA Account	7	154	111	50
High Vocal Activity	3,362	3,421	3,801	2,982
High School Volleyball Club	1,708	2,227	2,468	1,467
Weightlifting Club	330	1,470	811	989
Softball Pitching	166	121	251	36
High School Wrestling Club	1,347	7,409	7,292	1,464
High School Yearbook	(3,960)	3,225	3,907	(4,642)
High School Girls Track Club	835	31	313	553
Wrestling Camp	14	-	-	14

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2009

Account	Balance Beginning of Year	Revenues/ Transfers in	Expendi- tures	Balance End of Year
Basketball Cheerleading	1,816	221	111	1,926
Football Cheerleading	1,316	2,965	3,972	309
Wrestling Cheerleading	69	-	-	69
Elementary Field Trip	115	927	927	115
Elementary Student Directory	1,047	233	-	1,280
Middle School Leadership	1,266	1,723	1,482	1,507
Peers	158	-	-	158
Middle School Quest	2,886	996	543	3,339
SOS Account	532	-	-	532
Sweatshirts	(3,325)	1,831	-	(1,494)
Middle School TAG	17	-	-	17
Alumni	421	-	-	421
Spanish Club	180	-	-	180
JH Volleyball Club	111	-	-	111
Jump Rope for Heart	130	3,092	3,122	100
Elementary Playground Acct	17	-	-	17
Fellowship Athletes	79	-	-	79
Middle School Wrestling Club	91	-	-	91
Middle School Yearbook	837	1,080	-	1,917
Middle School Activity Center	1,423	124	124	1,423
Middle School Vocal Activity	4,280	-	320	3,960
Elementary Music	1,678	1,745	938	2,485
Home/School Partnership	57	-	-	57
Elementary PAC	22,867	33,200	33,873	22,194
Pott City Spelling Bee	-	75	-	75
JH Girls Track Club	80	-	-	80
Girard Memorial Library Fund	1,297	-	150	1,147
Special Ed Project	139	-	-	139
Wrestling Mat Fund	2,000	-	2,000	-
Band Flag Corp	260	946	485	721
JH Football Club	(44)	1,452	1,349	59
JH Basketball Club	9	-	-	9
JH Boys Track Club	712	1,502	2,519	(305)
Class of 2008	28	-	-	28
Class of 2009	555	1,932	1,979	508
Class of 2010	2,217	3,988	5,444	761
Class of 2011	-	2,439	1,468	971
MS Concessions	215	2,633	2,536	312
Adopt Instrument Fund	19	-	-	19
Band/Chicago Trip	16	28,118	27,648	486
BB/SB Complex	2,441	960	2,758	643
Total	\$ 80,868	283,378	276,279	87,967

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 CAPITAL PROJECTS FUNDS
 YEAR ENDED JUNE 30, 2009

	Capital Projects Fund		
	GO Bond Construction	Local Option Sales and Services Tax	Total
REVENUES:			
Local sources			
Local tax	\$ -	632,911	632,911
Other	25,546	10,589	36,135
Total revenues	25,546	643,500	669,046
EXPENDITURES:			
Current			
Support services:			
Administrative services	-	1,195	1,195
Other expenditures:			
Facilities acquisitions	1,947,334	1,150,923	3,098,257
Long-term debt:			
Costs of issuance	-	-	-
Total expenditures	1,947,334	1,152,118	3,099,452
Net change in fund balances	(1,921,788)	(508,618)	(2,430,406)
Fund balance beginning of year	1,921,788	1,046,130	2,967,918
Fund balance end of year	\$ -	537,512	537,512

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 FIDUCIARY FUND - PRIVATE PURPOSE TRUST FUNDS
 COMBINING BALANCE SHEET
 JUNE 30, 2009

	Private Purpose Trust - Scholarship Fund				
	Armstrong Scholarship	Boyer Scholarship	Torneton Scholarship	Wyland Scholarship	Total
Assets					
Cash and pooled investments	\$ 5,252	8,471	642	3,737	18,102
Total assets	<u>5,252</u>	<u>8,471</u>	<u>642</u>	<u>3,737</u>	<u>18,102</u>
Liabilities	-	-	-	-	-
Net Assets					
Reserved for scholarships	\$ 5,252	8,471	642	3,737	18,102

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 FIDUCIARY FUND - PRIVATE PURPOSE TRUST FUNDS
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 YEAR ENDED JUNE 30, 2009

	Private Purpose Trust - Scholarship Fund				Total
	Armstrong Scholarship	Boyer Scholarship	Torneton Scholarship	Wyland Scholarship	
Additions:					
Local sources:					
Gifts and contributions	\$ -	610	-	-	610
Interest income	23	188	-	135	346
Total Additions	23	798	-	135	956
Deductions:					
Instruction:					
Regular instruction:					
Scholarships	331	423	-	-	754
Total deductions	331	423	-	-	754
Change in net assets	(308)	375	-	135	202
Net assets beginning of year	5,560	8,096	642	3,602	17,900
Net assets end of year	\$ 5,252	8,471	642	3,737	18,102

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 SIX YEARS

	Modified Accrual Basis					
	Years Ended June 30,					
	2009	2008	2007	2006	2005	2004
Revenues:						
Local sources:						
Local tax	\$ 3,559,351	3,386,665	2,684,647	2,498,730	2,207,926	2,233,396
Tuition	582,847	535,398	530,597	496,622	489,707	399,863
Other	593,388	700,548	617,450	414,695	478,538	334,416
State sources	3,559,813	3,291,054	3,188,309	3,036,025	2,847,711	2,651,484
Federal sources	187,622	120,635	107,984	104,438	86,427	50,790
Total	\$ 8,483,021	8,034,300	7,128,987	6,550,510	6,110,309	5,669,949
Expenditures:						
Current:						
Instruction:						
Regular	\$ 3,234,551	2,818,043	2,524,275	2,534,795	2,387,862	2,356,053
Special	618,625	491,819	578,620	543,956	505,093	543,316
Other	725,085	690,333	611,006	613,966	614,014	470,998
Support services:						
Student	150,195	132,163	150,554	152,881	167,985	149,960
Instructional staff	216,595	278,716	222,390	215,561	221,128	183,763
Administration	878,294	857,999	798,067	702,332	665,318	554,918
Operation and maintenance of plant	794,137	679,452	608,972	609,510	650,068	597,250
Transportation	473,403	428,893	315,745	337,581	347,764	259,036
Non-instructional programs	-	-	-	-	1,207	4,044
Other expenditures:						
Facilities acquisitions	3,136,148	4,881,798	1,070,435	69,183	87,497	127,711
Long-term debt:						
Principal	205,000	90,000	-	-	-	-
Interest and fiscal charges	217,894	313,935	54,766	-	-	-
AEA flow-through	263,267	232,064	222,271	206,685	194,509	189,817
Total	\$ 10,913,194	11,895,215	7,157,101	5,986,450	5,842,445	5,436,866

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3060
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, 2009, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 1, 2010. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Underwood Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Underwood Community School District's internal control over financial reporting.

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

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-09 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, 2009 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.

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

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, 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.

March 1, 2010

UNDERWOOD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

I-A-09 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 where feasible, we will implement additional controls.

Conclusion - Response accepted.

I-B-09 Gate Admissions - We noted that while the District is utilizing pre-numbered tickets for indoor activities, they are not being used for all events.

Recommendation - The District should establish reconciliation procedures for all events that require admission. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the admissions to the number of tickets issued.

Response - We started the process for taking tickets late last fall for indoor events, we will be implementing taking tickets at our outdoor events during the 2010-11 school year.

Conclusion - Response accepted.

I-C-09 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In compliance with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches, and determine that the wage paid is in compliance with minimum wage requirements as well as any overtime issues.

Response - We have implemented guidelines for our coaches who are non-certified to submit timesheets on a timely basis.

Conclusion - Response accepted.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part II: Other Findings Related to Required Statutory Reporting:

II-A-09 Certified Budget - District expenditures for the year ended June 30, 2009 did not exceed the budgeted amounts.

II-B-09 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-C-09 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-D-09 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's Woodworking	Bookcases	\$32,323

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-E-09 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-F-09 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-09 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-H-09 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.

II-I-09 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-J-09 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.

II-K-09 Statewide Sales and Services Tax - No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales and services tax. For the year ended June 30, 2009, the District's financial activity and other required information for the statewide sales and services tax are as follows:

Beginning Balance		\$	-
Statewide sales and services tax revenue			632,911
Expenditures/Transfers Out:			
School infrastructure:			
Buildings	\$	537,512	
Other improvements		95,399	632,911
			<hr/>
Ending Balance		\$	-
			<hr/> <hr/>

II-L-09 Deficit Account Balances - Eight individual accounts within the Student Activity Fund had deficit balances totaling \$10,697.

Recommendation - The District should review purchase approval procedures for the Student Activity Fund and may wish to require additional approval before ordering goods or services from these accounts. The District should investigate alternatives to eliminate these deficit balances.

Response - We are continually working on measures to reduce deficit balances, some of the negative balances are due to inventories on hand.

Conclusion - Response accepted.

II-M-09 Electronic Check Retention - We noted during our audit that the District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check.

Recommendation - Chapter 554D.114 of the Code of Iowa does allow for the retention of records in electronic form. Chapter 291.6 of the Code of Iowa requires as a duty of the Board Secretary preservation of records. The District should receive the photo images showing both the front and back of the checks or the original issued check. Although the banks may have made records available to them, the District has not formally or informally identified that the banks are serving as custodians of the public record. We believe based on an informal advice document from an assistant attorney general that a bank maintaining the electronic check front and back may comply with the requirement of record retention. However, availability and cost of retrieval of those records should be agreed upon. As the District has not preserved the records, they should have in place a formal agreement with their respective banks identifying the banks as custodians of public records. In addition, the District should consider what effect the lack of availability of the backs of checks may have on the District's internal control procedures and processes.

Response - We have corrected this with our banking institution and are now receiving both front and back of each cancelled check.

Conclusion - Response accepted.

II-N-09 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year in the nutrition fund.

Recommendation - Per Chapter 556.1(10) and 556.11 of the Code of Iowa, the District is required to report unclaimed property to the State Treasurer annually before November 1st. The District should submit the outstanding checks to the State Treasurer as unclaimed property.

Response - We will be working on getting the outstanding checks cleared annually and prior to November 1.

Conclusion - Response accepted.