

UNDERWOOD COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2010

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Underwood Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2009 election)		
Neil Darrington	President	2011
Greg Konsor	Vice President	2009
Bill Bracker	Board Member	2011
Julie Handbury	Board Member (resigned)	2011
Dan Pederson	Board Member (appointed)	2009
Keith Peterson	Board Member	2009

Board of Education (After September 2009 election)		
Neil Darrington	President	2011
Keith Peterson	Vice President	2013
Bill Bracker	Board Member	2011
Becky Contstant	Board Member	2011*
John Rasmussen	Board Member	2013

School Officials		
Edward Hawks	Superintendent	2010
Shelley Naig	District Secretary and Treasurer	2010
William Hughes, Jr.	Attorney	2010
James Hanks	Attorney	2010

* Becky Contstant elected to a two-year term to fill the vacancy left by the Handbury resignation.

UNDERWOOD

COMMUNITY SCHOOL DISTRICT

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

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, 2010, 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 that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Underwood Community School District at June 30, 2010, 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 24, 2011 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, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 42 through 44 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Underwood Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 7, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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 24, 2011

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, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$6,879,871 in fiscal 2009 to \$6,816,666 in fiscal 2010, while General Fund expenditures increased from \$6,908,088 in fiscal 2009 to \$7,141,448 in fiscal 2010. This contributed to a decrease in the District's General Fund balance from \$784,833 in fiscal 2009 to \$460,051 in fiscal 2010, a 41.38% decrease from the prior year.
- The decrease in General Fund revenues was attributable to reduced state sources of revenue in fiscal 2010. The increase in expenditures was due primarily to increases in instruction expenditures.
- The District received \$648,308 in statewide sales, services and use tax during the 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, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the District.

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

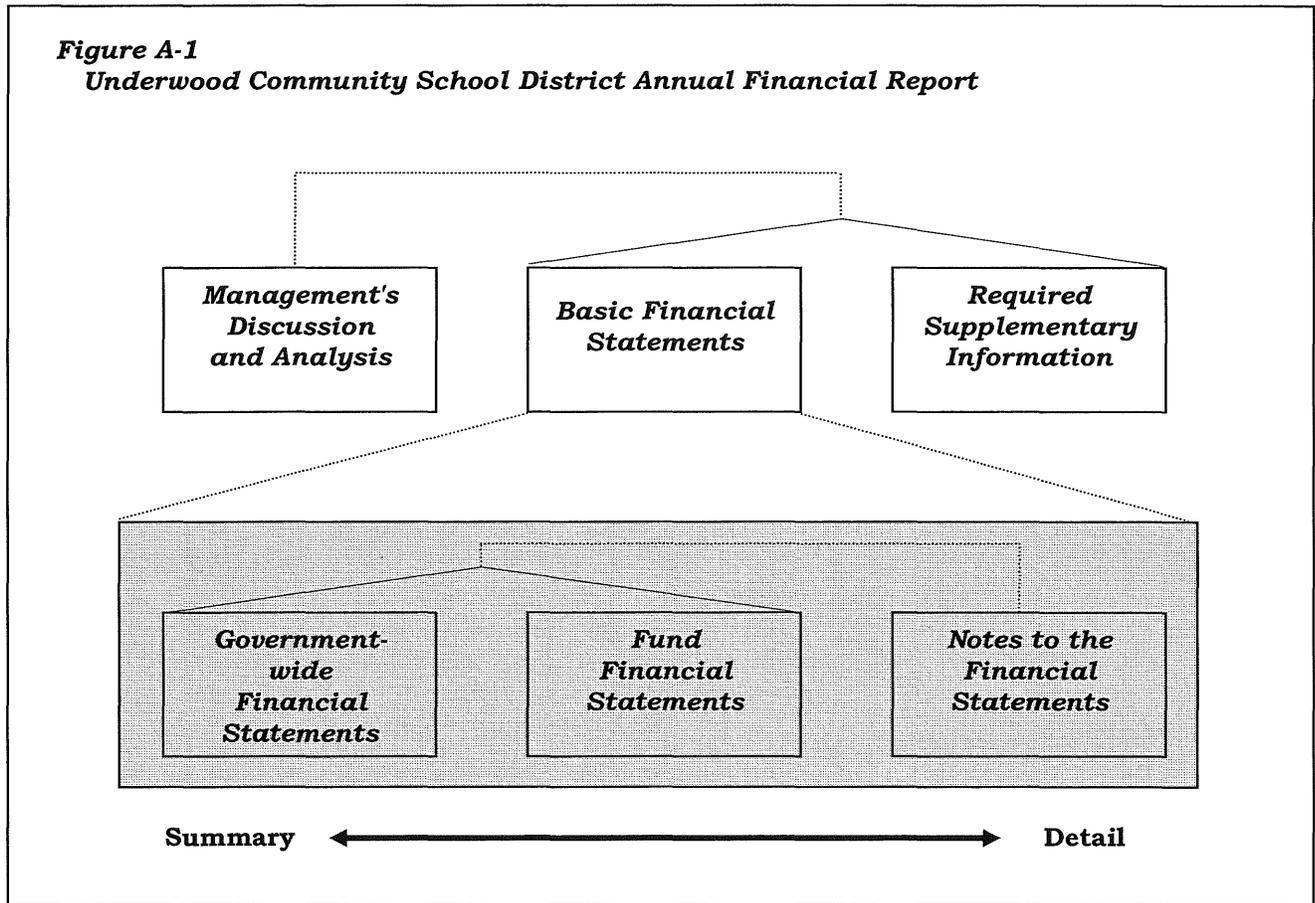


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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, 2010 compared to June 30, 2009.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Current and other assets	\$ 5,522,292	5,911,155	92,391	100,405	5,614,683	6,011,560	-6.60%
Capital assets	9,231,828	9,152,529	33,305	20,689	9,265,133	9,173,218	1.00%
Total assets	14,754,120	15,063,684	125,696	121,094	14,879,816	15,184,778	-2.01%
Long-term liabilities	5,230,726	5,187,047	-	-	5,230,726	5,187,047	0.84%
Other liabilities	4,414,130	4,453,329	28,034	25,950	4,442,164	4,479,279	-0.83%
Total liabilities	9,644,856	9,640,376	28,034	25,950	9,672,890	9,666,326	0.07%
Net assets:							
Invested in capital assets, net of related debt	4,296,828	4,002,529	33,305	20,689	4,330,133	4,023,218	7.63%
Restricted	662,826	688,412	-	-	662,826	688,412	-3.72%
Unrestricted	149,610	732,367	64,357	74,455	213,967	806,822	-73.48%
Total net assets	\$ 5,109,264	5,423,308	97,662	95,144	5,206,926	5,518,452	-5.65%

The District's combined net assets decreased by \$311,526 or 5.65% from 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 \$25,586 or 3.72% from the prior year.

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 \$592,855 or 73.48%.

Figure A-4 shows the changes in net assets for the years ended June 30, 2010 and June 30, 2009.

	Figure A-4						
	Changes of Net Assets						
	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
June 30,		June 30,		June 30,		June 30,	
2010	2009	2010	2009	2010	2009	2009-10	
Revenues and Transfers:							
Program revenues:							
Charges for services	\$ 809,233	911,687	311,434	313,343	1,120,667	1,225,030	-8.52%
Operating grants, contributions and restricted interest	1,282,620	959,976	117,069	106,656	1,399,689	1,066,632	31.23%
Capital grants, contributions and restricted interest	92	-	-	-	92	-	100.00%
General revenues:							
Property tax	3,210,940	2,926,440	-	-	3,210,940	2,926,440	9.72%
Statewide sales, services and use tax	648,308	632,911	-	-	648,308	632,911	0.00%
Unrestricted state grants	2,348,350	2,787,459	-	-	2,348,350	2,787,459	-15.75%
Other	65,123	272,001	9,769	39	74,892	272,040	-72.47%
Transfers	(3,632)	(17,115)	3,632	17,115	-	-	100.00%
Total revenues and transfers	<u>8,361,034</u>	<u>8,473,359</u>	<u>441,904</u>	<u>437,153</u>	<u>8,802,938</u>	<u>8,910,512</u>	<u>-1.21%</u>
Program expenses:							
Governmental activities:							
Instruction	4,923,752	4,598,198	-	-	4,923,752	4,598,198	7.08%
Support services	2,597,324	2,472,813	-	-	2,597,324	2,472,813	5.04%
Non-instructional programs	-	-	439,386	423,276	439,386	423,276	3.81%
Other expenses	1,154,002	1,253,228	-	-	1,154,002	1,253,228	-7.92%
Total expenses	<u>8,675,078</u>	<u>8,324,239</u>	<u>439,386</u>	<u>423,276</u>	<u>9,114,464</u>	<u>8,747,515</u>	<u>4.19%</u>
Change in net assets	(314,044)	149,120	2,518	13,877	(311,526)	162,997	-291.12%
Net assets beginning of year	<u>5,423,308</u>	<u>5,274,188</u>	<u>95,144</u>	<u>81,267</u>	<u>5,518,452</u>	<u>5,355,455</u>	<u>3.04%</u>
Net assets end of year	<u>\$ 5,109,264</u>	<u>5,423,308</u>	<u>97,662</u>	<u>95,144</u>	<u>5,206,926</u>	<u>5,518,452</u>	<u>-5.65%</u>

In fiscal 2010, property tax, statewide sales, services and use tax and unrestricted state grants account for 74.24% of the revenue from governmental activities while charges for services and operating grants and contributions account for 96.97% of the revenue from business type activities.

The District's total revenues were approximately \$8.80 million, of which approximately \$8.36 million was for governmental activities and \$0.44 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a decrease of 1.21% in revenues, and a 4.19% increase in expenses. The increase in expenses was related to the increases in instructional expenses.

Governmental Activities

Revenues, net transfers for governmental activities were \$8,361,034 and expenses were \$8,675,078.

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

Figure A-5 Total and Net Cost of Governmental Activities						
	Total Cost of Services			Net Cost of Services		
	2010	2009	Change 2009-10	2010	2009	Change 2009-10
Instruction	\$ 4,923,752	4,598,198	7.08%	3,135,296	3,017,426	3.91%
Support services	2,597,324	2,472,813	5.04%	2,591,096	2,445,189	5.97%
Other expenses	1,154,002	1,253,228	-7.92%	856,741	989,961	-13.46%
Totals	\$ 8,675,078	8,324,239	4.21%	6,583,133	6,452,576	2.02%

For the year ended June 30, 2010:

- The cost financed by users of the District’s programs was \$809,233.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,282,712.
- The net cost of governmental activities was financed with \$3,210,940 in property tax, \$648,308 in statewide sales, services and use tax, \$2,384,350 in unrestricted state grants, \$7,124 in interest income and \$57,999 in other general revenues.

Business type Activities

Revenues of the District’s business type activities were \$441,904 and expenses were \$439,386. 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 Physical Plant and Equipment Levy 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 \$1,141,436, below last year’s ending fund balances of \$1,492,623. The primary reason for the decrease was the decrease in the fund balance of the General Fund.

Governmental Fund Highlights

- The District’s General Fund balance decreased from \$784,833 on June 30, 2009 to \$460,051 on June 30, 2010. The District’s deteriorating General Fund financial position is the product of many factors. Increased revenues from federal sources during the year were unable to completely offset the reduction in state sources of funding resulting in an overall decline in total revenues. Combined with 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 \$324,782.

- The Capital Projects fund balance increased during the year ended June 30, 2010, from \$537,512 to \$553,151. The combination of increased statewide sales, services and use tax revenue and reduced facilities acquisitions expenditures created the increase in fund balance.

Proprietary Fund Highlights

The Enterprise Funds net assets increased from \$95,144 at June 30, 2009 to \$97,662 at June 30, 2010, representing an increase of 2.65%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$405,305 less than budgeted revenues, a variance of 4.40%. The most significant variances resulted from the District receiving more in federal sources and less from state 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.

During the year ended June 30, 2010, the certified budget was exceeded in the instruction functional area.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had invested \$9,265,133, 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 1.00% from last year. More detailed information about capital assets is available in Note 3 to the financial statements. Depreciation expense for the year was \$324,812.

The original cost of the District's capital assets was \$13,646,392. Governmental funds account for \$13,583,018 with the remainder of \$63,374 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The construction in progress totaled \$0 at June 30, 2009, compared to \$212,242 reported at June 30, 2010. The change reflects contracts entered into during the year for the high school roofing project.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Land	\$ 97,590	97,590	-	-	97,590	97,590	0.00%
Construction in progress	212,242	-	-	-	212,242	-	100.00%
Buildings	8,510,349	8,694,674	-	-	8,510,349	8,694,674	-2.12%
Land improvements	136,950	146,139	-	-	136,950	146,139	-6.29%
Machinery and equipment	274,697	214,126	33,305	20,689	308,002	234,815	31.17%
Total	\$ 9,231,828	9,152,529	33,305	20,689	9,265,133	9,173,218	1.00%

Long-Term Debt

At June 30, 2010, the District had \$5,230,726 in general and other long-term debt outstanding. This represents an increase of 0.84% 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 \$4,935,000 at June 30, 2010.

The District had total outstanding Early Retirement payable from the Special Revenue - Management Levy Fund of \$28,726 at June 30, 2010.

During its initial year of recording net OPEB liability in accordance with GASB Statement No. 45, the District disclosed a balance of \$267,000 at June 30, 2010.

Figure A-7
Outstanding Long-Term Obligations

	Total		Total
	School District		Change
	June 30,		June 30,
	2010	2009	2009-10
General obligation bonds	\$ 4,935,000	5,150,000	-4.17%
Early retirement	28,726	37,047	-22.46%
Net OPEB liability	267,000	-	100.00%
Total	\$ 5,230,726	5,187,047	0.84%

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 explore new sources of revenue during the 2010/2011 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 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, 2010

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,691,765	84,750	1,776,515
Receivables:			
Property tax:			
Delinquent	35,681	-	35,681
Succeeding year	3,585,444	-	3,585,444
Accounts	73	-	73
Due from other governments	209,329	-	209,329
Inventories	-	7,641	7,641
Capital assets, net of accumulated depreciation	9,231,828	33,305	9,265,133
Total assets	14,754,120	125,696	14,879,816
Liabilities			
Accounts payable	137,849	-	137,849
Salaries and benefits payable	657,563	25,434	682,997
Accrued interest payable	33,274	-	33,274
Deferred revenue:			
Succeeding year property tax	3,585,444	-	3,585,444
Unearned revenues	-	2,600	2,600
Long-term liabilities:			
Portion due within one year:			
General obligation bonds	220,000	-	220,000
Early Retirement	28,726	-	28,726
Portion due after one year:			
General obligation bonds	4,715,000	-	4,715,000
Net OPEB liability	267,000	-	267,000
Total liabilities	9,644,856	28,034	9,672,890
Net Assets			
Invested in capital assets, net of related debt	4,296,828	33,305	4,330,133
Restricted for:			
Categorical funding	30,167	-	30,167
Debt service	2,590	-	2,590
Capital projects	533,151	-	533,151
Management levy	5,339	-	5,339
Physical plant and equipment levy	13,954	-	13,954
Other special revenue purposes	77,625	-	77,625
Unrestricted	149,610	64,357	213,967
Total net assets	\$ 5,109,264	97,662	5,206,926

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular	\$ 3,432,685	494,604	804,898	-	(2,133,183)	-	(2,133,183)
Special	682,899	64,954	123,269	-	(494,676)	-	(494,676)
Other	808,168	246,356	54,375	-	(507,437)	-	(507,437)
	<u>4,923,752</u>	<u>805,914</u>	<u>982,542</u>	<u>-</u>	<u>(3,135,296)</u>	<u>-</u>	<u>(3,135,296)</u>
Support services:							
Student	164,210	-	-	-	(164,210)	-	(164,210)
Instructional staff	286,784	-	-	-	(286,784)	-	(286,784)
Administration	946,329	-	-	-	(946,329)	-	(946,329)
Operation and maintenance of plant	818,586	-	-	-	(818,586)	-	(818,586)
Transportation	381,415	3,319	2,909	-	(375,187)	-	(375,187)
	<u>2,597,324</u>	<u>3,319</u>	<u>2,909</u>	<u>-</u>	<u>(2,591,096)</u>	<u>-</u>	<u>(2,591,096)</u>
Other expenditures:							
Facilities acquisitions	410,440	-	-	92	(410,348)	-	(410,348)
Long-term debt interest	207,658	-	-	-	(207,658)	-	(207,658)
AEA flowthrough	297,169	-	297,169	-	-	-	-
Depreciation(unallocated)*	238,735	-	-	-	(238,735)	-	(238,735)
	<u>1,154,002</u>	<u>-</u>	<u>297,169</u>	<u>92</u>	<u>(856,741)</u>	<u>-</u>	<u>(856,741)</u>
Total governmental activities	8,675,078	809,233	1,282,620	92	(6,583,133)	-	(6,583,133)
Business Type activities:							
Non-instructional programs:							
Nutrition services	378,326	239,635	117,069	-	-	(21,622)	(21,622)
Latch Key	61,060	71,799	-	-	-	10,739	10,739
Total business type activities	<u>439,386</u>	<u>311,434</u>	<u>117,069</u>	<u>-</u>	<u>-</u>	<u>(10,883)</u>	<u>(10,883)</u>
Total	\$ 9,114,464	1,120,667	1,399,689	92	(6,583,133)	(10,883)	(6,594,016)
General Revenues and Transfers:							
General Revenues:							
Property tax levied for:							
General purposes					\$ 2,723,452	-	2,723,452
Debt service					423,035	-	423,035
Capital outlay					64,453	-	64,453
Statewide sales, services and use tax					648,308	-	648,308
Unrestricted state grants					2,348,350	-	2,348,350
Unrestricted investment earnings					7,124	-	7,124
Other general revenues					57,999	9,769	67,768
Transfers					(3,632)	3,632	-
Total general revenues and transfers					<u>6,269,089</u>	<u>13,401</u>	<u>6,282,490</u>
Change in net assets					(314,044)	2,518	(311,526)
Net assets beginning of year					<u>5,423,308</u>	<u>95,144</u>	<u>5,518,452</u>
Net assets end of year					<u>\$ 5,109,264</u>	<u>97,662</u>	<u>5,206,926</u>

* 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, 2010

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments	\$ 1,059,689	509,793	124,315	1,693,797
Receivables:				
Property tax:				
Delinquent	28,576	-	7,105	35,681
Succeeding year	2,926,669	-	658,775	3,585,444
Accounts	73	-	-	73
Due from other governments	89,403	119,834	92	209,329
Total assets	\$ 4,104,410	629,627	790,287	5,524,324
Liabilities and Fund Balances				
Liabilities:				
Excess of warrants issued over bank balance	-	-	2,032	2,032
Accounts payable	60,127	76,476	1,246	137,849
Salaries and benefits payable	657,563	-	-	657,563
Deferred revenue:				
Succeeding year property tax	2,926,669	-	658,775	3,585,444
Total liabilities	3,644,359	76,476	662,053	4,382,888
Fund balances:				
Reserved for:				
Categorical funding	30,167	-	-	30,167
Debt service	-	-	2,590	2,590
Unreserved	429,884	553,151	125,644	1,108,679
Total fund balances	460,051	553,151	128,234	1,141,436
Total liabilities and fund balances	\$ 4,104,410	629,627	790,287	5,524,324

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2010

Total fund balances of governmental funds (page 20)	\$ 1,141,436
 <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.	9,231,828
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.	(33,274)
Long-term liabilities, including bonds payable, early retirement payable and other postemployment benefits payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(5,230,726)</u>
Net assets of governmental activities (page 18)	<u><u>\$ 5,109,264</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
Revenues:				
Local sources:				
Local tax	\$ 2,563,889	648,308	647,051	3,859,248
Tuition	529,795	-	-	529,795
Other	90,705	1,572	250,634	342,911
State sources	3,110,655	-	343	3,110,998
Federal sources	519,972	-	92	520,064
Total revenues	<u>6,815,016</u>	<u>649,880</u>	<u>898,120</u>	<u>8,363,016</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,218,358	-	80,107	3,298,465
Special	679,912	-	-	679,912
Other	565,311	-	244,015	809,326
	<u>4,463,581</u>	<u>-</u>	<u>324,122</u>	<u>4,787,703</u>
Support services:				
Student	156,686	-	-	156,686
Instructional staff	275,727	-	-	275,727
Administration	891,124	-	6,654	897,778
Operation and maintenance of plant	668,773	-	122,913	791,686
Transportation	388,388	-	25,000	413,388
	<u>2,380,698</u>	<u>-</u>	<u>154,567</u>	<u>2,535,265</u>
Other expenditures:				
Facilities acquisitions	-	634,241	37,294	671,535
Long-term debt:				
Principal	-	-	215,000	215,000
Interest	-	-	209,181	209,181
AEA flowthrough	297,169	-	-	297,169
	<u>297,169</u>	<u>634,241</u>	<u>461,475</u>	<u>1,392,885</u>
Total expenditures	<u>7,141,448</u>	<u>634,241</u>	<u>940,164</u>	<u>8,715,853</u>
Excess(deficiency) of revenues over(under) expenditures	(326,432)	15,639	(42,044)	(352,837)
Other financing sources:				
Sale of equipment	1,650	-	-	1,650
Net change in fund balances	(324,782)	15,639	(42,044)	(351,187)
Fund balances beginning of year	784,833	537,512	170,278	1,492,623
Fund balances end of year	<u>\$ 460,051</u>	<u>553,151</u>	<u>128,234</u>	<u>1,141,436</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
 YEAR ENDED JUNE 30, 2010

Net change in fund balances - total governmental funds (page 22) \$ (351,187)

*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	\$ 400,737	
Depreciation expense	(321,438)	79,299

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. 215,000

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. 1,523

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	8,321	
Other postemployment benefits	(267,000)	(258,679)

Changes in net assets of governmental activities (page 19) \$ (314,044)

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010

	School Nutrition	Latch Key	Total
Assets			
Cash and pooled investments	\$ 12,012	72,738	84,750
Inventories	7,641	-	7,641
Capital assets, net of accumulated depreciation	33,305	-	33,305
Total assets	52,958	72,738	125,696
Liabilities			
Salaries and benefits payable	21,173	4,261	25,434
Unearned revenue	2,600	-	2,600
Total liabilities	23,773	4,261	28,034
Net Assets			
Invested in capital assets	33,305	-	33,305
Unrestricted	(4,120)	68,477	64,357
Total net assets	\$ 29,185	68,477	97,662

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, 2010

	School Nutrition	Latch Key	Total
Operating revenues:			
Local sources:			
Charges for services	\$ 239,635	71,799	311,434
Miscellaneous	9,769	-	9,769
Total operating revenues	<u>249,404</u>	<u>71,799</u>	<u>321,203</u>
Operating expenses:			
Non-instructional programs:			
Salaries	118,126	51,921	170,047
Benefits	16,265	6,523	22,788
Services	7,719	-	7,719
Supplies	232,399	2,616	235,015
Other	443	-	443
Depreciation	3,374	-	3,374
Total operating expenses	<u>378,326</u>	<u>61,060</u>	<u>439,386</u>
Operating income(loss)	<u>(128,922)</u>	<u>10,739</u>	<u>(118,183)</u>
Non-operating revenues:			
State sources	3,785	-	3,785
Federal sources	113,284	-	113,284
Total non-operating revenues	<u>117,069</u>	<u>-</u>	<u>117,069</u>
Change in net assets before other financing sources	(11,853)	10,739	(1,114)
Other financing sources:			
Capital contributions	3,632	-	3,632
Change in net assets	(8,221)	10,739	2,518
Net assets beginning of year	<u>37,406</u>	<u>57,738</u>	<u>95,144</u>
Net assets end of year	<u>\$ 29,185</u>	<u>68,477</u>	<u>97,662</u>

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010

	School Nutrition	Larch Key	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 238,924	-	238,924
Cash received from miscellaneous operating activities	9,769	71,799	81,568
Cash payments to employees for services	(131,717)	(58,323)	(190,040)
Cash payments to suppliers for goods or services	(211,121)	(2,616)	(213,737)
Net cash provided by(used in) operating activities	(94,145)	10,860	(83,285)
Cash flows from non-capital financing activities:			
State grants received	3,785	-	3,785
Federal grants received	83,864	-	83,864
Net cash provided by non-capital financing activities	87,649	-	87,649
Cash flows from capital and related financing activities:			
Purchase of capital assets	(12,358)	-	(12,358)
Net increase(decrease) in cash and cash equivalents	(18,854)	10,860	(7,994)
Cash and cash equivalents at beginning of year	30,866	61,878	92,744
Cash and cash equivalents at end of year	\$ 12,012	72,738	84,750
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:			
Operating income(loss)	\$ (128,922)	10,739	(118,183)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:			
Commodities consumed	29,420	-	29,420
Depreciation	3,374	-	3,374
Decrease in inventories	20	-	20
Increase in salaries and benefits payable	2,674	121	2,795
Decrease in unearned revenue	(711)	-	(711)
Net cash provided by(used in) operating activities	\$ (94,145)	10,860	(83,285)

Non-cash investing, capital and related financing activities:

During the year ended June 30, 2010, the District received \$29,420 of federal commodities.

During the year ended June 30, 2010, the Nutrition Fund received a capital contribution of \$3,632 from the Physical Plant and Equipment Levy Fund.

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2010

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
Assets	
Cash and pooled investments	\$ 18,950
Liabilities	-
Net Assets	
Reserved for scholarships	\$ 18,950

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2010

	Private Purpose Trust
	Scholarship
Additions:	
Local sources:	
Gifts and contributions	\$ 1,018
Interest income	243
Total additions	1,261
 Deductions:	
Instruction:	
Scholarships awarded	413
Total deductions	413
 Change in net assets	 848
 Net assets beginning of year	 18,102
 Net assets end of year	 \$ 18,950

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(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 imposed by management which 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. 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, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2009.

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 and intangibles, 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.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,500
Buildings	1,500
Land improvements	1,500
Intangibles	25,000
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:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Land improvements	20 years
Intangibles	2 or more 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. During the year ended June 30, 2010, expenditures in the instruction functional area exceeded the amount budgeted.

(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 Direct Government Obligations Portfolio which are valued at an amortized cost of \$79,958 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, 2010 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	-	212,242	-	212,242
Total capital assets not being depreciated	97,590	212,242	-	309,832
Capital assets being depreciated:				
Buildings	10,731,537	45,221	-	10,776,758
Land improvements	599,828	-	-	599,828
Machinery and equipment	1,758,162	143,274	4,836	1,896,600
Total capital assets being depreciated	13,089,527	188,495	4,836	13,273,186
Less accumulated depreciation for:				
Buildings	2,036,863	229,546	-	2,266,409
Land improvements	453,689	9,189	-	462,878
Machinery and equipment	1,544,036	82,703	4,836	1,621,903
Total accumulated depreciation	4,034,588	321,438	4,836	4,351,190
Total capital assets being depreciated, net	9,054,939	(132,943)	-	8,921,996
Governmental activities capital assets, net	\$ 9,152,529	79,299	-	9,231,828
Business type activities:				
Machinery and equipment	\$ 51,793	15,990	4,409	63,374
Less accumulated depreciation	31,104	3,374	4,409	30,069
Business type activities capital assets, net	\$ 20,689	12,616	-	33,305

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 13,020
Other		10,090
Support services:		
Administration		1,356
Operation and maintenance of plant		14,669
Transportation		43,568
		<u>82,703</u>
Unallocated depreciation		<u>238,735</u>
Total governmental activities depreciation expense		<u>\$ 321,438</u>
Business type activities:		
Food services		<u>\$ 3,374</u>

(4) Long-Term Liabilities

A summary of changes in long-term debt for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 5,150,000	-	215,000	4,935,000	220,000
Early retirement	37,047	28,726	37,047	28,726	28,726
Net OPEB liability	-	267,000	-	267,000	-
Total	<u>\$ 5,187,047</u>	<u>295,726</u>	<u>252,047</u>	<u>5,230,726</u>	<u>248,726</u>

General Obligation Bonds Payable

Details of the District's June 30, 2010 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Bond Issue of May 1, 2003			
	Interest Rates	Principal	Interest	Total
2011	4.250 %	\$ 220,000	199,644	419,644
2012	4.250	230,000	190,294	420,294
2013	4.250	240,000	180,519	420,519
2014	4.000	250,000	170,318	420,318
2015	4.000	260,000	160,319	420,319
2016-2020	4.000	1,490,000	635,394	2,125,394
2021-2025	4.000	1,830,000	311,594	2,141,594
2026	4.125	415,000	17,118	432,118
Total		<u>\$ 4,935,000</u>	<u>1,865,200</u>	<u>6,800,200</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 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, 2010, totaled \$37,047. 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 4.30% of their annual covered salary and the District is required to contribute 6.65% of annual covered salary. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$272,275, \$249,792 and \$213,330, respectively, equal to the required contributions for each year.

(6) Other Postemployment Benefits

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and vision benefits for retirees and their spouses. There are 82 active and 3 retired members in the plan. Participants must be age 55 or older at age of retirement.

The medical benefits are provided through a fully-insured plan with United Health Care of River Valley. Retirees under age 65 pay the same premium for the medical benefit as active employees, which result in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 368,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>368,000</u>
Contributions made	<u>(101,000)</u>
Increase in net OPEB obligation	267,000
Net OPEB obligation beginning of year	<u>-</u>
Net OPEB obligation end of year	<u><u>\$ 267,000</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the District contributed \$101,000 to the medical plan. Plan members eligible for benefits contributed \$49,000, or 32.67% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$368,000	27.45%	\$267,000

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$3,130,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,130,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,878,551 and the ratio of the UAAL to covered payroll was 80.70%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the projected unit credit cost method was used. The actuarial assumptions include a 4.5% discount rate based on the District's funding policy. The projected annual health care cost trend rate is 11.0% for the year ended June 30, 2010, grading down by 0.5% each year until an ultimate health care cost trend rate is reached in 2022 of 5.0%.

Mortality rates are from the RP2000 Table, applied on a gender-specific basis. Annual retirement probabilities were developed based upon sample rates varying by age and employee type.

Projected claim costs of the medical plan are \$599 per month for retirees less than age 65. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(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, 2010 were \$3,841.

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 \$297,169 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2010, expenditures in the instruction functional area exceeded the budgeted amounts.

(10) **Categorical Funding**

The District's ending balances for categorical funding by project as of June 30, 2010 are as follows:

<u>Project</u>	<u>Amount</u>
Teacher Salary Supplement	\$ 3,330
Additional Teacher Contract Day	2,882
Market Factor	4,220
Professional Development for Model Core Curriculum	18,539
Professional Development	827
Market Factor Incentives	369
	<hr/>
Total	<u>\$ 30,167</u>

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, 2010

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Funds	Funds		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 4,731,954	321,203	5,053,157	5,192,184	5,192,184	(139,027)
State sources	3,110,998	3,785	3,114,783	3,842,409	3,842,409	(727,626)
Federal sources	520,064	113,284	633,348	172,000	172,000	461,348
Total revenues	8,363,016	438,272	8,801,288	9,206,593	9,206,593	(405,305)
Expenditures/Expenses:						
Instruction	4,787,703	-	4,787,703	4,771,800	4,771,800	(15,903)
Support services	2,535,265	-	2,535,265	3,189,356	3,189,356	654,091
Non-instructional programs	-	439,386	439,386	539,347	539,347	99,961
Other expenditures	1,392,885	-	1,392,885	1,431,037	1,431,037	38,152
Total expenditures/expenses	8,715,853	439,386	9,155,239	9,931,540	9,931,540	776,301
Deficiency of revenues under expenditures/expenses	(352,837)	(1,114)	(353,951)	(724,947)	(724,947)	(370,996)
Other financing sources, net	1,650	3,632	5,282	10,000	10,000	4,718
Excess(deficiency) of revenues and other financing sources over(under) expenditures/expenses	(351,187)	2,518	(348,669)	(714,947)	(714,947)	(366,278)
Balances beginning of year	1,492,623	95,144	1,587,767	869,258	869,258	718,509
Balances end of year	\$ 1,141,436	97,662	1,239,098	154,311	154,311	1,084,787

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2010

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

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

During the year ended June 30, 2010, expenditures in the instruction functional area exceeded the amounts budgeted.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FUNDING PROGRESS FOR THE
 RETIREE HEALTH PLAN
 REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	-	\$ 3,130,000	3,130,000	0.00%	\$ 3,878,551	80.70%

See Note 6 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2010

	Special Revenue					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	\$ 32,286	77,625	14,404	124,315	-	124,315
Receivables:						
Property tax:						
Delinquent	1,779	-	704	2,483	4,622	7,105
Succeeding year	170,000	-	68,731	238,731	420,044	658,775
Due from other governments	-	-	92	92	-	92
Total assets	\$ 204,065	77,625	83,931	365,621	424,666	790,287
Liabilities and Fund Balances						
Liabilities:						
Excess of warrants issued over bank balance	\$ -	-	-	-	2,032	2,032
Accounts payable	-	-	1,246	1,246	-	1,246
Deferred revenue:						
Succeeding year property tax	170,000	-	68,731	238,731	420,044	658,775
Total liabilities	170,000	-	69,977	239,977	422,076	662,053
Fund balances:						
Reserved for debt service	-	-	-	-	2,590	2,590
Unreserved	34,065	77,625	13,954	125,644	-	125,644
Total fund balances	34,065	77,625	13,954	125,644	2,590	128,234
Total liabilities and fund balances	\$ 204,065	77,625	83,931	365,621	424,666	790,287

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, 2010

	Special Revenue			Debt Service	Total Other Nonmajor Governmental Funds
	Management Levy	Student Activity	Physical Plant and Equipment Levy		
Revenues:					
Local sources:					
Local tax	\$ 159,563	-	64,453	224,016	423,035
Other	16,775	233,673	9	250,457	177
State sources	85	-	34	119	224
Federal sources	-	-	92	92	-
Total revenues	176,423	233,673	64,588	474,684	423,436
Expenditures:					
Current:					
Instruction:					
Regular	80,107	-	-	80,107	-
Other	-	244,015	-	244,015	-
Support services:					
Administration	6,654	-	-	6,654	-
Operation and maintenance of plant	122,913	-	-	122,913	-
Transportation	-	-	25,000	25,000	-
Other expenditures:					
Facilities acquisitions	-	-	37,294	37,294	-
Long-term Debt:					
Principal	-	-	-	-	215,000
Interest	-	-	-	-	209,181
Total expenditures	209,674	244,015	62,294	515,983	424,181
Net change in fund balance	(33,251)	(10,342)	2,294	(41,299)	(745)
Fund balances beginning of year	67,316	87,967	11,660	166,943	3,335
Fund balances end of year	\$ 34,065	77,625	13,954	125,644	2,590

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2010

Account	Balance Beginning of Year	Revenues	Expendi- tures	Intra- Fund Transfers	Balance End of Year
Drama/Speech	\$ 179	-	407	230	2
Band Activity	1,396	15,405	12,565	-	4,236
Track Activity	(1,622)	3,541	7,035	-	(5,116)
Basketball Activity	1,497	5,314	6,023	-	788
Football Activity	4,411	9,251	9,497	-	4,165
Soccer Activity	-	3,782	11,911	-	(8,129)
Baseball Activity	(1,131)	2,811	2,640	554	(406)
Wrestling Activity	(591)	1,696	1,177	72	-
Volleyball Activity	952	2,646	3,829	231	-
Softball Activity	1,282	3,499	3,037	-	1,744
Activity Tickets	1,833	9,361	9,724	(857)	613
Golf Activity	778	1,391	1,985	-	184
Elementary Art Club	3,303	5,849	5,315	-	3,837
Baseball Club	4,832	6,843	7,172	-	4,503
High School Art Club	355	1,349	1,397	-	307
High School Concessions	(599)	2,410	1,843	32	-
Cross Country Club	29	940	810	-	159
Boys Basketball Club	1,257	7,295	6,849	-	1,703
FFA Account	3,671	-	-	-	3,671
Interest	-	488	197	(230)	61
Girls Basketball Club	5,828	10,593	13,228	-	3,193
Library Club	492	-	52	-	440
Football Club	2,454	7,119	8,573	-	1,000
Drill Team	472	9,069	9,611	-	(70)
Middle School Pop/Juice	386	8,497	8,484	312	711
High School Pop/Juice	721	1,972	2,515	(32)	146
Revolving	(313)	2,872	2,608	-	(49)
Soda	221	-	-	-	221
High School Science Club	140	-	-	-	140
Softball Club	2,560	12,544	11,520	-	3,584
Elementary Student Council	2,141	-	34	-	2,107
Middle School Student Council	936	2,875	2,929	-	882
High School Student Council	527	874	1,054	-	347
High School Boys Track Club	211	964	1,024	-	151
FCCLA/FHA Account	50	-	-	-	50
High Vocal Activity	2,982	4,236	6,825	-	393
High School Volleyball Club	1,467	2,045	2,445	-	1,067
Weightlifting Club	989	822	1,000	-	811
Softball Pitching	36	-	-	-	36
High School Wrestling Club	1,464	7,183	7,680	-	967
High School Yearbook	(4,642)	2,635	2,237	-	(4,244)
High School Girls Track Club	553	499	236	-	816
Wrestling Camp	14	-	-	-	14

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 3

Account	Balance Beginning of Year	Revenues/ Transfers in	Expendi- tures	Balance End of Year
Basketball Cheerleading	1,926	-	-	(157) 1,769
Football Cheerleading	309	2,648	3,114	157 -
Wrestling Cheerleading	69	420	489	- -
Elementary Field Trip	115	465	465	- 115
Elementary Student Directory	1,280	218	-	- 1,498
Middle School Leadership	1,507	1,455	1,807	- 1,155
Peers	158	-	-	- 158
Middle School Quest	3,339	788	681	- 3,446
SOS Account	532	-	316	- 216
Sweatshirts	(1,494)	11,150	9,336	- 320
Middle School TAG	17	-	-	- 17
Alumni	421	-	-	- 421
Spanish Club	180	414	474	- 120
JH Volleyball Club	111	260	245	- 126
Jump Rope for Heart	100	2,020	2,020	- 100
Elementary Playground Acct	17	500	-	- 517
Fellowship Athletes	79	-	-	- 79
Middle School Wrestling Club	91	-	-	- 91
Middle School Yearbook	1,917	1,050	2,090	- 877
Middle School Activity Center	1,423	-	569	- 854
Middle School Vocal Activity	3,960	-	258	- 3,702
Elementary Music	2,485	905	2,471	- 919
Home/School Partnership	57	-	-	- 57
Elementary PAC	22,194	28,766	22,146	- 28,814
Pott City Spelling Bee	75	-	-	- 75
JH Girls Track Club	80	640	619	- 101
Girard Memorial Library Fund	1,147	100	1,082	- 165
Special Ed Project	139	-	-	- 139
Band Flag Corp	721	1,758	2,392	- 87
JH Football Club	59	3,505	3,546	- 18
JH Basketball Club	9	-	-	- 9
JH Boys Track Club	(305)	60	98	- (343)
Class of 2008	28	-	-	- 28
Class of 2009	508	-	-	- 508
Class of 2010	761	2,312	2,280	- 793
Class of 2011	971	5,383	5,327	- 1,027
Class of 2012	-	2,838	1,950	- 888
Class of 2013	-	-	25	- (25)
MS Concessions	312	-	-	(312) -
Adopt Instrument Fund	19	-	-	- 19
Band/Chicago Trip	486	-	-	- 486
BB/SB Complex	643	1,970	962	- 1,651
Fall Baseball League	-	2,957	2,097	- 860
Girls Soccer Club	-	586	471	- 115
Boys Soccer Club	-	1,585	1,217	- 368
National Honor Society	-	250	-	- 250
Total	\$ 87,967	233,673	244,015	- 77,625

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 FIDUCIARY FUND - PRIVATE PURPOSE TRUST FUNDS
 COMBINING BALANCE SHEET
 JUNE 30, 2010

	Private Purpose Trust - Scholarship Fund				
	Armstrong Scholarship	Boyer Scholarship	Torneton Scholarship	Wyland Scholarship	Total
Assets					
Cash and pooled investments	\$ 6,250	8,366	617	3,717	18,950
Liabilities					
	-	-	-	-	-
Net Assets					
Reserved for scholarships	\$ 6,250	8,366	617	3,717	18,950

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, 2010

	Private Purpose Trust - Scholarship Fund				
	Armstrong Scholarship	Boyer Scholarship	Torneton Scholarship	Wyland Scholarship	Total
Additions:					
Local sources:					
Gifts and contributions	\$ 1,018	-	-	-	1,018
Interest income	80	83	-	80	243
Total Additions	1,098	83	-	80	1,261
Deductions:					
Instruction:					
Regular:					
Scholarships awarded	100	188	25	100	413
Total deductions	100	188	25	100	413
Change in net assets	998	(105)	(25)	(20)	848
Net assets beginning of year	5,252	8,471	642	3,737	18,102
Net assets end of year	\$ 6,250	8,366	617	3,717	18,950

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 SEVEN YEARS

	Modified Accrual Basis						
	Years Ended June 30,						
	2010	2009	2008	2007	2006	2005	2004
Revenues:							
Local sources:							
Local tax	\$ 3,859,248	3,559,351	3,386,665	2,684,647	2,498,730	2,207,926	2,233,396
Tuition	529,795	582,847	535,398	530,597	496,622	489,707	399,863
Other	342,911	593,388	700,548	617,450	414,695	478,538	334,416
State sources	3,110,998	3,559,813	3,291,054	3,188,309	3,036,025	2,847,711	2,651,484
Federal sources	520,064	187,622	120,635	107,984	104,438	86,427	50,790
Total	<u>\$ 8,363,016</u>	<u>8,483,021</u>	<u>8,034,300</u>	<u>7,128,987</u>	<u>6,550,510</u>	<u>6,110,309</u>	<u>5,669,949</u>
Expenditures:							
Current:							
Instruction:							
Regular	\$ 3,298,465	3,234,551	2,818,043	2,524,275	2,534,795	2,387,862	2,356,053
Special	679,912	618,625	491,819	578,620	543,956	505,093	543,316
Other	809,326	725,085	690,333	611,006	613,966	614,014	470,998
Support services:							
Student	156,686	150,195	132,163	150,554	152,881	167,985	149,960
Instructional staff	275,727	216,595	278,716	222,390	215,561	221,128	183,763
Administration	897,778	878,294	857,999	798,067	702,332	665,318	554,918
Operation and maintenance of plant	791,686	794,137	679,452	608,972	609,510	650,068	597,250
Transportation	413,388	473,403	428,893	315,745	337,581	347,764	259,036
Non-instructional programs		-	-	-	-	1,207	4,044
Other expenditures:							
Facilities acquisitions	671,535	3,136,148	4,881,798	1,070,435	69,183	87,497	127,711
Long-term debt:							
Principal	215,000	205,000	90,000	-	-	-	-
Interest and fiscal charges	209,181	217,894	313,935	54,766	-	-	-
AEA flow-through	297,169	263,267	232,064	222,271	206,685	194,509	189,817
Total	<u>\$ 8,715,853</u>	<u>10,913,194</u>	<u>11,895,215</u>	<u>7,157,101</u>	<u>5,986,450</u>	<u>5,842,445</u>	<u>5,436,866</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

Grantor/Program	CFDA Number	Grant Number	Expenditures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 10	\$ 13,466
National School Lunch Program	10.555	FY 10	99,818 *
			113,284
U.S. Department of Education:			
Iowa Department of Education:			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	FY 10	26,178
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY 10	14,492
			40,670
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 10	1,426
Improving Teacher Quality State Grants	84.367	FY 10	15,937
Grants for State Assessments and Related Activities	84.369	FY 10	5,044
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	FY 10	330,670
Area Education Agency:			
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027	FY 10	38,673
ARRA - Special Education Grants to States, Recovery Act	84.391	FY 10	84,596
			123,269
Career and Technical Education - Basic Grants to States	84.048	FY 10	2,956
U.S. Department of Homeland Security:			
Iowa Department of Homeland Security:			
Disaster Grants - Public Assistance	97.036	FY10	92
Total			\$ 633,348

* -Includes \$29,420 in non-cash awards.

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Underwood Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD

COMMUNITY SCHOOL DISTRICT

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
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, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 24, 2011. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-10 to be 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 IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 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 and Questioned Costs. 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, and 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 24, 2011

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable
To Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education of
Underwood Community School District:

Compliance

We have audited the compliance of Underwood Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. Underwood Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Underwood Community School District's management. Our responsibility is to express an opinion on Underwood Community School District's compliance based on our audit.

We conducted our audit on compliance in accordance with U.S. generally accepted accounting standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Underwood Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Underwood Community School District's compliance with those requirements.

In our opinion, Underwood Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Underwood Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Underwood Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Underwood Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-10 to be a material weakness.

Underwood Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. 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, and is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

March 24, 2011

UNDERWOOD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major Programs were as follows:
 - CFDA Number 84.394 - ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Underwood Community School District did not qualify as a low-risk auditee.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCY:

II-A-10 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.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

CFDA Number 84.394: ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act

Federal Award Year: 2010

U.S. Department of Education

Passed through the Iowa Department of Education

III-A-10 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.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-10 Certified Budget - District expenditures for the year ended June 30, 2010 exceeded the certified budgeted amounts in the instruction functional area.

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

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

Conclusion - Response accepted.

IV-B-10 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.

IV-C-10 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.

IV-D-10 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	Services	\$2,248

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.

IV-E-10 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.

IV-F-10 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-10 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.

IV-H-10 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

IV-I-10 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.

IV-J-10 Certified Annual Report - The Certified Annual Report was not filed with the Department of Education timely. However, we noted no significant deficiencies in the amounts reported.

Recommendation - The District should submit the Certified Annual Report in a timely manner in the future.

Response - This was largely due to health related circumstances and being out of the office most of July. The District will submit the Certified Annual Report on a timely basis.

Conclusion - Response accepted.

IV-K-10 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.

IV-L-10 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use 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, services and use tax. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax are as follows:

Beginning Balance		\$	-
Statewide sales, services and use tax revenue			648,308
Expenditures/Transfers Out:			
School infrastructure:			
Land improvements	\$	30,359	
Buildings		586,768	
Equipment		17,114	634,241
Ending Balance		\$	<u>14,067</u>

As a result of the statewide sales, services and use tax revenue received during the year ended June 30, 2010, the district reduced the following levies:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
Physical plant and equipment levy	\$ 1.34000	\$ 262,428

IV-M-10 Deficit Account Balances - Eight individual accounts within the Student Activity Fund had deficit balances totaling \$18,382.

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 and the startup costs of an athletic soccer program.

Conclusion - Response accepted.

IV-N-10 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended. We noted the High School Art Club and Elementary Art Club made several purchases of general art supplies and purchased a laser printer.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). The art clubs do not appear to meet the requirements to be included in the Student Activity Fund. The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear that these accounts are instructional in nature and therefore, more appropriate to the General Fund. The District should transfer the residual balances to the General Fund.

Response - We have discontinued the use of the art club activity accounts for instructional item purchases. Going forward, these receipts and expenditures will be recorded in the General Fund.

Conclusion - Response accepted.

IV-O-10 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 General Fund and 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 1st.

Conclusion - Response accepted.