

UNDERWOOD COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2011

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Underwood Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
Neil Darrington	President	2011
Keith Peterson	Vice President	2013
Bill Bracker	Board Member	2011
Becky Contstant	Board Member	2011
John Rasmussen	Board Member	2013
<b>School Officials</b>		
Edward Hawks	Superintendent	2011
Shelley Naig	District Secretary and Treasurer	2011
William Hughes, Jr.	Attorney	2011
James Hanks	Attorney	2011

# 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, 2011, 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, 2011, 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 13, 2012 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.

Members American Institute & Iowa Society of Certified Public Accountants

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 44 through 46 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 seven years ended June 30, 2010 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 8, 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.

A handwritten signature in black ink that reads "Nolte, Cornman & Johnson PC". The signature is written in a cursive, somewhat stylized font.

NOLTE, CORNMAN & JOHNSON, P.C.

March 13, 2012

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2011 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$6,816,666 in fiscal 2010 to \$7,736,944 in fiscal 2011, while General Fund expenditures increased from \$7,141,448 in fiscal 2010 to \$7,470,394 in fiscal 2011. This contributed to an increase in the District's General Fund balance from \$460,051 in fiscal 2010 to \$726,601 in fiscal 2011, a 57.94% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in property tax and state sources of revenue in fiscal 2011. The increase in expenditures was due primarily to increases in instruction and support services expenditures.
- The District received \$692,522 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.

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

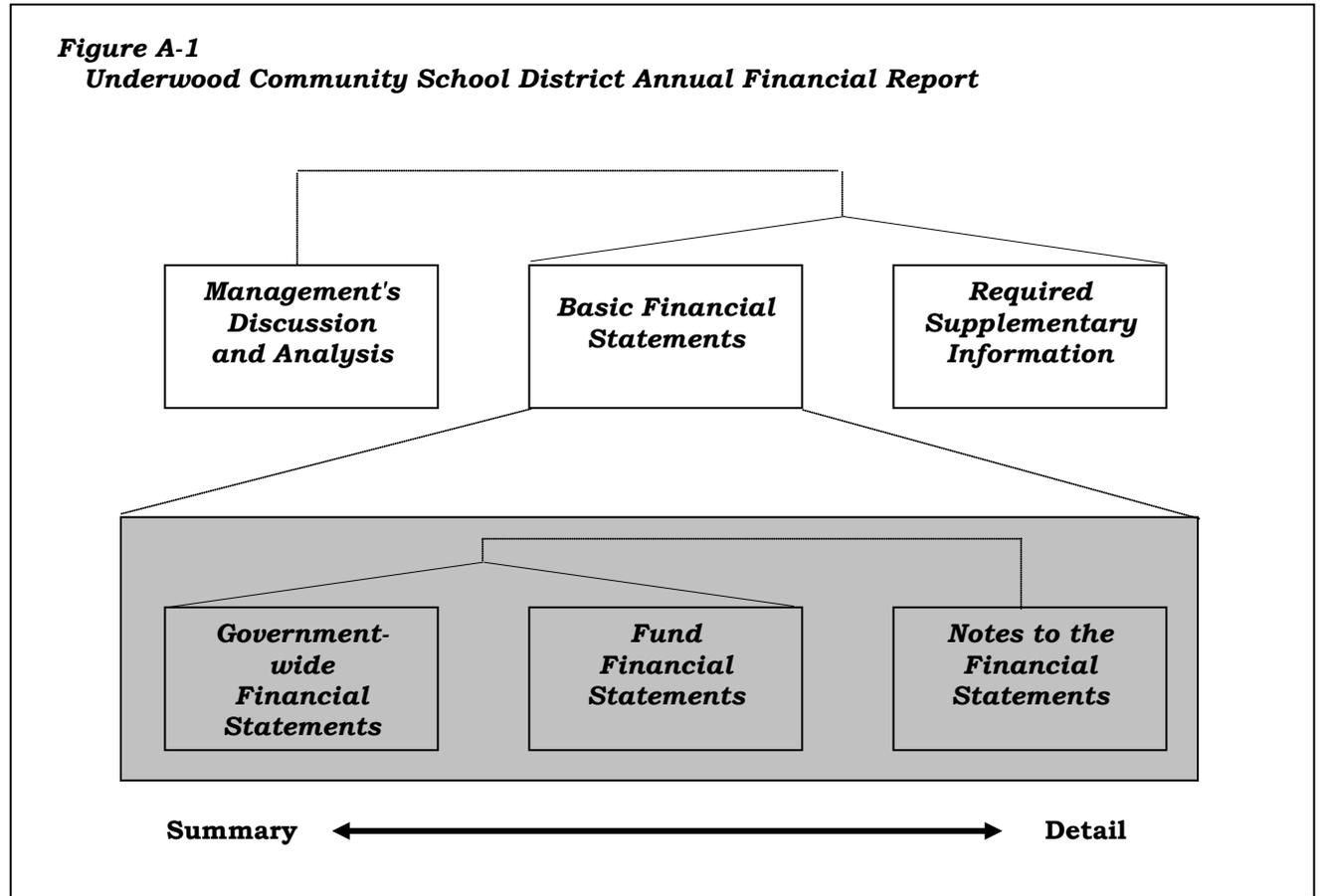


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-Wide and Fund Financial Statements</b>				
	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"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
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, 2011 compared to June 30, 2010.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-11
Current and other assets	\$ 5,474,479	5,522,292	95,409	92,391	5,569,888	5,614,683	-0.80%
Capital assets	9,302,623	9,231,828	36,029	33,305	9,338,652	9,265,133	0.79%
Total assets	14,777,102	14,754,120	131,438	125,696	14,908,540	14,879,816	0.19%
Long-term liabilities	5,328,757	5,230,726	7,874	-	5,336,631	5,230,726	2.02%
Other liabilities	3,741,937	4,414,130	32,233	28,034	3,774,170	4,442,164	-15.04%
Total liabilities	9,070,694	9,644,856	40,107	28,034	9,110,801	9,672,890	-5.81%
Net assets:							
Invested in capital assets, net of related debt	4,587,623	4,296,828	36,029	33,305	4,623,652	4,330,133	6.78%
Restricted	1,099,434	662,826	-	-	1,099,434	662,826	65.87%
Unrestricted	19,351	149,610	55,302	64,357	74,653	213,967	-65.11%
Total net assets	\$ 5,706,408	5,109,264	91,331	97,662	5,797,739	5,206,926	11.35%

The District’s combined net assets increased by \$590,813 or 11.35% 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 increased \$436,608 or 65.87% 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 \$139,314 or 65.11%. This was due in large part to the District's increasing other postemployment benefit liability.

Figure A-4 shows the changes in net assets for the years ended June 30, 2011 and June 30, 2010.

Figure A-4							
Changes of Net Assets							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-11
<b>Revenues and Transfers:</b>							
Program revenues:							
Charges for services	\$ 927,484	809,233	318,512	311,434	1,245,996	1,120,667	11.18%
Operating grants, contributions and restricted interest	570,769	1,282,620	117,197	117,069	687,966	1,399,689	-50.85%
Capital grants, contributions and restricted interest	14,919	92	-	-	14,919	92	16116.30%
General revenues:							
Property tax	3,580,230	3,210,940	-	-	3,580,230	3,210,940	11.50%
Statewide sales, services and use tax	692,522	648,308	-	-	692,522	648,308	0.00%
Unrestricted state grants	3,187,735	2,348,350	-	-	3,187,735	2,348,350	35.74%
Nonspecific program federal grants	219,055	-	-	-	219,055	-	100.00%
Other	176,183	65,123	4,651	9,769	180,834	74,892	141.46%
Transfers	-	(3,632)	-	3,632	-	-	0.00%
<b>Total revenues and transfers</b>	<b>9,368,897</b>	<b>8,361,034</b>	<b>440,360</b>	<b>441,904</b>	<b>9,809,257</b>	<b>8,802,938</b>	<b>11.43%</b>
<b>Program expenses:</b>							
Governmental activities:							
Instruction	5,168,921	4,923,752	-	-	5,168,921	4,923,752	4.98%
Support services	2,829,678	2,597,324	1,324	-	2,831,002	2,597,324	9.00%
Non-instructional programs	-	-	445,367	439,386	445,367	439,386	1.36%
Other expenses	773,154	1,154,002	-	-	773,154	1,154,002	-33.00%
<b>Total expenses</b>	<b>8,771,753</b>	<b>8,675,078</b>	<b>446,691</b>	<b>439,386</b>	<b>9,218,444</b>	<b>9,114,464</b>	<b>1.14%</b>
Change in net assets	597,144	(314,044)	(6,331)	2,518	590,813	(311,526)	289.65%
Net assets beginning of year, as restated	5,109,264	5,423,308	97,662	95,144	5,206,926	5,518,452	-5.65%
<b>Net assets end of year</b>	<b>\$ 5,706,408</b>	<b>5,109,264</b>	<b>91,331</b>	<b>97,662</b>	<b>5,797,739</b>	<b>5,206,926</b>	<b>11.35%</b>

In fiscal 2011, property tax, statewide sales, services and use tax and unrestricted state grants account for 79.63% of the revenue from governmental activities while charges for services and operating grants and contributions account for 98.94% of the revenue from business type activities.

The District's total revenues were approximately \$9.81 million, of which approximately \$9.37 million was for governmental activities and approximately \$0.44 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 11.43% in revenues, and a 1.14% increase in expenses. The increase in expenses was related to the increases in instructional and support services expenses.

### Governmental Activities

Revenues for governmental activities were \$9,368,897 and expenses were \$8,771,753.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses for the year ended June 30, 2011 compared to the year ended June 30, 2010.

	Total Cost of Services			Net Cost of Services		
	2011	2010	Change 2010-11	2011	2010	Change 2010-11
Instruction	\$ 5,168,921	4,923,752	4.98%	3,998,703	3,135,296	27.54%
Support services	2,829,678	2,597,324	8.95%	2,796,395	2,591,096	7.92%
Other expenses	773,154	1,154,002	-33.00%	463,483	856,741	-45.90%
Totals	<u>\$ 8,771,753</u>	<u>8,675,078</u>	<u>1.11%</u>	<u>7,258,581</u>	<u>6,583,133</u>	<u>10.26%</u>

For the year ended June 30, 2011:

- The cost financed by users of the District's programs was \$927,484.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$585,688.
- The net cost of governmental activities was financed with \$3,580,230 in property tax, \$692,522 in statewide sales, services and use tax, \$3,187,735 in unrestricted state grants, \$219,055 in nonspecific program federal grants, \$6,474 in interest income and \$169,709 in other general revenues.

### Business type Activities

Revenues of the District's business type activities were \$440,360 and expenses were \$446,691. The District's business type activities include the School Nutrition and Latch Key Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

### INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,764,258, an increase from last year's ending fund balance of \$1,141,436. The primary reason for the increase was the increase in the fund balance of the General Fund.

### Governmental Fund Highlights

- The District's General Fund balance increased from \$460,051 on June 30, 2010 to \$726,601 on June 30, 2011. The District's General Fund financial position is the product of many factors. Increased revenues from local and state sources during the year were

offset the reduction in federal sources of funding resulting in an overall increase in total revenues. While costs from the instruction and support services functional areas caused expenditures to increase, revenues exceeded expenditures resulted in an increase in the General Fund balance. Overall, the District's General Fund balance increased by \$266,550.

- The Capital Projects Fund balance increased from a restated balance of \$567,105 at the beginning of the fiscal year 2011 to \$919,592. The beginning balance was restated as a result of the Physical Plant and Equipment Levy Fund reclassification as a Capital Projects Fund account in accordance with GASB Statement No. 54. This was a result of statewide sales, services and use tax revenues in excess of capital expenditures.

### **Proprietary Fund Highlights**

The Enterprise Funds net assets decreased from \$97,662 at June 30, 2010 to \$91,331 at June 30, 2011, representing a decrease of 6.48%.

### **BUDGETARY HIGHLIGHTS**

The District's revenues were \$142,976 more than budgeted revenues, a variance of 1.48%. The most significant variances resulted from the District receiving more in federal sources than originally anticipated.

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

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

At June 30, 2011, the District had invested \$9,338,652, 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 0.79% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$367,466.

The original cost of the District's capital assets was \$14,016,602. Governmental funds account for \$13,946,577 with the remainder of \$70,025 in the Proprietary, School Nutrition and Latch Key Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The construction in progress totaled \$212,242 at June 30, 2010, compared to \$0 reported at June 30, 2011. The change was a result of the District completing work on the high school roofing during the year.

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,
	2011	2010	2011	2010	2011	2010	2010-11
Land	\$ 97,590	97,590	-	-	97,590	97,590	0.00%
Construction in progress	-	212,242	-	-	-	212,242	-100.00%
Buildings	8,751,238	8,510,349	-	-	8,751,238	8,510,349	2.83%
Land improvements	155,329	136,950	-	-	155,329	136,950	13.42%
Machinery and equipment	298,466	274,697	36,029	33,305	334,495	308,002	8.60%
<b>Total</b>	<b>\$ 9,302,623</b>	<b>9,231,828</b>	<b>36,029</b>	<b>33,305</b>	<b>9,338,652</b>	<b>9,265,133</b>	<b>0.79%</b>

### Long-Term Debt

At June 30, 2011, the District had \$5,336,631 in general and other long-term debt outstanding. This represents an increase of 2.02% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding General Obligation Bonds payable of \$4,715,000 at June 30, 2011.

The District had total outstanding Early Retirement payable from the Special Revenue - Management Levy Fund of \$53,852 at June 30, 2011.

The District had total outstanding Net OPEB liability payable totaling \$567,779 at June 30, 2011.

Figure A-7  
Outstanding Long-Term Obligations

	Governmental		Business type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	Change
General obligation bonds	\$ 4,715,000	4,935,000	-	-	4,715,000	4,935,000	-4.46%
Early retirement	53,852	28,726	-	-	53,852	28,726	87.47%
Net OPEB obligation	559,905	267,000	7,874	-	567,779	267,000	112.65%
<b>Total</b>	<b>\$ 5,328,757</b>	<b>5,230,726</b>	<b>7,874</b>	<b>-</b>	<b>5,336,631</b>	<b>5,230,726</b>	<b>2.02%</b>

### 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.

## **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 Andrea Chatterton, 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, 2011

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 2,263,339	88,971	2,352,310
Receivables:			
Property tax:			
Delinquent	34,918	-	34,918
Succeeding year	2,940,569	-	2,940,569
Accounts	1,812	-	1,812
Due from other governments	233,841	-	233,841
Inventories	-	6,438	6,438
Capital assets, net of accumulated depreciation	9,302,623	36,029	9,338,652
<b>Total assets</b>	<b>14,777,102</b>	<b>131,438</b>	<b>14,908,540</b>
<b>Liabilities</b>			
Accounts payable	94,811	-	94,811
Salaries and benefits payable	674,841	29,156	703,997
Accrued interest payable	31,716	-	31,716
Deferred revenue:			
Succeeding year property tax	2,940,569	-	2,940,569
Unearned revenues	-	3,077	3,077
Long-term liabilities:			
Portion due within one year:			
General obligation bonds	225,000	-	225,000
Early Retirement	53,852	-	53,852
Portion due after one year:			
General obligation bonds	4,490,000	-	4,490,000
Net OPEB liability	559,905	7,874	567,779
<b>Total liabilities</b>	<b>9,070,694</b>	<b>40,107</b>	<b>9,110,801</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	4,587,623	36,029	4,623,652
Restricted for:			
Categorical funding	81,676	-	81,676
School infrastructure	923,935	-	923,935
Student activities	91,547	-	91,547
Debt service	2,276	-	2,276
Unrestricted	19,351	55,302	74,653
<b>Total net assets</b>	<b>\$ 5,706,408</b>	<b>91,331</b>	<b>5,797,739</b>

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
<b>Functions/Programs:</b>							
Governmental activities:							
Instruction:							
Regular	\$ 3,426,280	557,935	169,527	-	(2,698,818)	-	(2,698,818)
Special	870,155	104,186	39,308	-	(726,661)	-	(726,661)
Other	872,486	263,271	35,991	-	(573,224)	-	(573,224)
	<u>5,168,921</u>	<u>925,392</u>	<u>244,826</u>	<u>-</u>	<u>(3,998,703)</u>	<u>-</u>	<u>(3,998,703)</u>
Support services:							
Student	166,007	-	-	-	(166,007)	-	(166,007)
Instructional staff	285,526	-	4,947	-	(280,579)	-	(280,579)
Administration	967,269	-	-	-	(967,269)	-	(967,269)
Operation and maintenance of plant	974,318	-	-	14,919	(959,399)	-	(959,399)
Transportation	436,558	2,092	11,325	-	(423,141)	-	(423,141)
	<u>2,829,678</u>	<u>2,092</u>	<u>16,272</u>	<u>14,919</u>	<u>(2,796,395)</u>	<u>-</u>	<u>(2,796,395)</u>
Other expenses:							
Long-term debt interest	198,536	-	-	-	(198,536)	-	(198,536)
AEA flowthrough	309,671	-	309,671	-	-	-	-
Depreciation(unallocated)*	264,947	-	-	-	(264,947)	-	(264,947)
	<u>773,154</u>	<u>-</u>	<u>309,671</u>	<u>-</u>	<u>(463,483)</u>	<u>-</u>	<u>(463,483)</u>
Total governmental activities	8,771,753	927,484	570,769	14,919	(7,258,581)	-	(7,258,581)
Business Type activities:							
Support services:							
Administration	1,324	-	-	-	-	(1,324)	(1,324)
Non-instructional programs:							
Nutrition services	371,934	249,042	117,197	-	-	(5,695)	(5,695)
Latch Key	73,433	69,470	-	-	-	(3,963)	(3,963)
Total non-instructional programs	<u>445,367</u>	<u>318,512</u>	<u>117,197</u>	<u>-</u>	<u>-</u>	<u>(9,658)</u>	<u>(9,658)</u>
Total business type activities	<u>446,691</u>	<u>318,512</u>	<u>117,197</u>	<u>-</u>	<u>-</u>	<u>(10,982)</u>	<u>(10,982)</u>
Total	\$ 9,218,444	1,245,996	687,966	14,919	(7,258,581)	(10,982)	(7,269,563)
<b>General Revenues:</b>							
Property tax levied for:							
General purposes					\$ 3,092,154	-	3,092,154
Debt service					419,443	-	419,443
Capital outlay					68,633	-	68,633
Statewide sales, services and use tax					692,522	-	692,522
Unrestricted state grants					3,187,735	-	3,187,735
Nonspecific program federal grants					219,055	-	219,055
Unrestricted investment earnings					6,474	-	6,474
Other general revenues					169,709	4,651	174,360
Total general revenues and transfers					<u>7,855,725</u>	<u>4,651</u>	<u>7,860,376</u>
Change in net assets					597,144	(6,331)	590,813
Net assets beginning of year					5,109,264	97,662	5,206,926
Net assets end of year					<u>\$ 5,706,408</u>	<u>91,331</u>	<u>5,797,739</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, 2011

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>Assets</b>				
Cash and pooled investments	\$ 1,306,528	842,682	114,129	2,263,339
Receivables:				
Property tax:				
Delinquent	28,576	658	5,684	34,918
Succeeding year	2,926,669	3,250	10,650	2,940,569
Accounts	1,812	-	-	1,812
Due from other funds	-	4,752	-	4,752
Due from other governments	133,528	100,313	-	233,841
<b>Total assets</b>	<b>\$ 4,397,113</b>	<b>951,655</b>	<b>130,463</b>	<b>5,479,231</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Due to other funds	\$ -	3,004	1,748	4,752
Accounts payable	69,002	25,809	-	94,811
Salaries and benefits payable	674,841	-	-	674,841
Deferred revenue:				
Succeeding year property tax	2,926,669	3,250	10,650	2,940,569
Total liabilities	<u>3,670,512</u>	<u>32,063</u>	<u>12,398</u>	<u>3,714,973</u>
Fund balances:				
Restricted for:				
Categorical funding	81,676	-	-	81,676
School infrastructure	-	923,935	-	923,935
Management levy purposes	-	-	50,001	50,001
Student activities	-	-	91,547	91,547
Debt service	-	-	2,276	2,276
Unassigned for:				
General	644,925	-	-	644,925
Physical plant and equipment	-	(4,343)	-	(4,343)
Student activities	-	-	(25,759)	(25,759)
Total fund balances	<u>726,601</u>	<u>919,592</u>	<u>118,065</u>	<u>1,764,258</u>
<b>Total liabilities and fund balances</b>	<b>\$ 4,397,113</b>	<b>951,655</b>	<b>130,463</b>	<b>5,479,231</b>

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2011

<b>Total fund balances of governmental funds(page 20)</b>	\$ 1,764,258
 <b>Amounts reported for governmental activities in the statement of net assets are different because:</b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	9,302,623
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.	(31,716)
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>(5,328,757)</u>
<b>Net assets of governmental activities(page 18)</b>	<u><u>\$ 5,706,408</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, 2011

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
Revenues:				
Local sources:				
Local tax	\$ 2,922,401	761,155	589,196	4,272,752
Tuition	631,429	-	-	631,429
Other	204,274	1,196	266,768	472,238
State sources	3,667,343	33	286	3,667,662
Federal sources	309,897	14,919	-	324,816
Total revenues	<u>7,735,344</u>	<u>777,303</u>	<u>856,250</u>	<u>9,368,897</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,279,713	-	31,828	3,311,541
Special	788,499	-	-	788,499
Other	560,780	-	265,747	826,527
	<u>4,628,992</u>	<u>-</u>	<u>297,575</u>	<u>4,926,567</u>
Support services:				
Student	157,903	-	-	157,903
Instructional staff	271,138	-	-	271,138
Administration	908,701	-	5,430	914,131
Operation and maintenance of plant	746,748	-	129,366	876,114
Transportation	447,241	25,830	-	473,071
	<u>2,531,731</u>	<u>25,830</u>	<u>134,796</u>	<u>2,692,357</u>
Other expenditures:				
Facilities acquisitions	-	398,986	-	398,986
Long-term debt:				
Principal	-	-	220,000	220,000
Interest and fiscal charges	-	-	200,094	200,094
AEA flowthrough	309,671	-	-	309,671
	<u>309,671</u>	<u>398,986</u>	<u>420,094</u>	<u>1,128,751</u>
Total expenditures	<u>7,470,394</u>	<u>424,816</u>	<u>852,465</u>	<u>8,747,675</u>
Excess of revenues over expenditures	264,950	352,487	3,785	621,222
Other financing sources:				
Sale of equipment	1,600	-	-	1,600
Net change in fund balances	266,550	352,487	3,785	622,822
Fund balances beginning of year, as restated	460,051	567,105	114,280	1,141,436
Fund balances end of year	<u>\$ 726,601</u>	<u>919,592</u>	<u>118,065</u>	<u>1,764,258</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, 2011

Net change in fund balances - total governmental funds(page 22) \$ 622,822

**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	\$ 434,334	
Depreciation expense	<u>(363,539)</u>	70,795

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.		220,000
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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.		1,558
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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	(25,126)	
Other postemployment benefits	<u>(292,905)</u>	<u>(318,031)</u>

Changes in net assets of governmental activities(page 19)		<u>\$ 597,144</u>
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SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2011

	School Nutrition	Latch Key	Total
<b>Assets</b>			
Cash and pooled investments	\$ 14,012	74,959	88,971
Inventories	6,438	-	6,438
Capital assets, net of accumulated depreciation	34,560	1,469	36,029
<b>Total assets</b>	<b>55,010</b>	<b>76,428</b>	<b>131,438</b>
<b>Liabilities</b>			
Salaries and benefits payable	23,513	5,643	29,156
Unearned revenue	3,077	-	3,077
Net OPEB liability	1,603	6,271	7,874
<b>Total liabilities</b>	<b>28,193</b>	<b>11,914</b>	<b>40,107</b>
<b>Net Assets</b>			
Invested in capital assets	34,560	1,469	36,029
Unrestricted	(7,743)	63,045	55,302
<b>Total net assets</b>	<b>\$ 26,817</b>	<b>64,514</b>	<b>91,331</b>

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, 2011

	School Nutrition	Latch Key	Total
Operating revenues:			
Local sources:			
Charges for services	\$ 249,042	69,470	318,512
Miscellaneous	4,651	-	4,651
Total operating revenues	<u>253,693</u>	<u>69,470</u>	<u>323,163</u>
Operating expenses:			
Support services:			
Services	1,324	-	1,324
Non-instructional programs:			
Salaries	122,239	51,536	173,775
Benefits	21,012	19,427	40,439
Services	4,695	-	4,695
Supplies	219,898	2,337	222,235
Other	296	-	296
Depreciation	3,794	133	3,927
Total operating expenses	<u>371,934</u>	<u>73,433</u>	<u>445,367</u>
Total operating expenses	<u>373,258</u>	<u>73,433</u>	<u>446,691</u>
Operating loss	<u>(119,565)</u>	<u>(3,963)</u>	<u>(123,528)</u>
Non-operating revenues:			
State sources	3,441	-	3,441
Federal sources	113,756	-	113,756
Total non-operating revenues	<u>117,197</u>	<u>-</u>	<u>117,197</u>
Change in net assets	(2,368)	(3,963)	(6,331)
Net assets beginning of year	<u>29,185</u>	<u>68,477</u>	<u>97,662</u>
Net assets end of year	<u>\$ 26,817</u>	<u>64,514</u>	<u>91,331</u>

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2011

	School Nutrition	Latch Key	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 249,519	-	249,519
Cash received from miscellaneous operating activities	4,651	69,470	74,121
Cash payments to employees for services	(139,308)	(63,310)	(202,618)
Cash payments to suppliers for goods or services	(198,023)	(2,337)	(200,360)
Net cash provided by(used in) operating activities	<u>(83,161)</u>	<u>3,823</u>	<u>(79,338)</u>
Cash flows from non-capital financing activities:			
State grants received	3,441	-	3,441
Federal grants received	86,769	-	86,769
Net cash provided by non-capital financing activities	<u>90,210</u>	<u>-</u>	<u>90,210</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	(5,049)	(1,602)	(6,651)
Net increase in cash and cash equivalents	2,000	2,221	4,221
Cash and cash equivalents at beginning of year	12,012	72,738	84,750
Cash and cash equivalents at end of year	<u>\$ 14,012</u>	<u>74,959</u>	<u>88,971</u>
<b>Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:</b>			
Operating loss	\$ (119,565)	(3,963)	(123,528)
Adjustments to reconcile operating income(loss) to net cash providedby(used in) operating activities:			
Commodities consumed	26,987	-	26,987
Depreciation	3,794	133	3,927
Decrease in inventories	1,203	-	1,203
Increase in salaries and benefits payable	2,340	1,382	3,722
Increase in unearned revenue	477	-	477
Increase in other postemployment benefits	1,603	6,271	7,874
Net cash provided by(used in) operating activities	<u>\$ (83,161)</u>	<u>3,823</u>	<u>(79,338)</u>

**Non-cash investing, capital and related financing activities:**

During the year ended June 30, 2011, the District received \$26,987 of federal commodities.

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUND  
 JUNE 30, 2011

	Private Purpose Trust
	Scholarship
<b>Assets</b>	
Cash and pooled investments	\$ 20,020
<b>Liabilities</b>	-
<b>Net Assets</b>	
Reserved for scholarships	\$ 20,020

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUND  
 YEAR ENDED JUNE 30, 2011

	Private Purpose Trust
	Scholarship
Additions:	
Local sources:	
Gifts and contributions	\$ 1,149
Interest income	236
Total additions	1,385
Deductions:	
Instruction:	
Scholarships awarded	315
Total deductions	315
Change in net assets	1,070
Net assets beginning of year	18,950
Net assets end of year	\$ 20,020

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**(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. Combining schedules are also included for the Capital Project Fund accounts.

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.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications - restricted and then unassigned fund balances.

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, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2010.

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.

Asset Class	Amount
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:

Asset Class	Estimated Useful Lives (In Years)
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 Equity - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2010 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 \$80,044 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) Due from and Due to Other Funds**

At June 30, 2011 the interfund receivables and payables consisted of the following:

Receivable Fund	Payable Fund	Amount
Capital Projects: Statewide Sales, Services and Use Tax	Capital Projects: Physical Plant and Equipment Levy	\$ 3,004
Capital Projects: Statewide Sales, Services and Use Tax	Debt Service	1,748
Total		<u>\$ 4,752</u>

The Capital Projects: Physical Plant and Equipment Levy and Debt Service Funds are repaying the Capital Projects: Statewide Sales, Services and use Tax Fund for money borrowed for cash flow purposes.

**(4) Capital Assets**

Capital assets activity for the year ended June 30, 2011 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End Of Year
<b>Business type activities:</b>				
Machinery and equipment	\$ 63,374	6,651	-	70,025
Less accumulated depreciation	30,069	3,927	-	33,996
Business type activities capital assets, net	<u>\$ 33,305</u>	<u>2,724</u>	<u>-</u>	<u>36,029</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 97,590	-	-	97,590
Construction in progress	212,242	70,427	282,669	-
Total capital assets not being depreciated	<u>309,832</u>	<u>70,427</u>	<u>282,669</u>	<u>97,590</u>
Capital assets being depreciated:				
Buildings	10,776,758	495,196	-	11,271,954
Land improvements	599,828	29,019	5,534	623,313
Machinery and equipment	1,896,600	122,361	65,241	1,953,720
Total capital assets being depreciated	<u>13,273,186</u>	<u>646,576</u>	<u>70,775</u>	<u>13,848,987</u>
Less accumulated depreciation for:				
Buildings	2,266,409	254,307	-	2,520,716
Land improvements	462,878	10,640	5,534	467,984
Machinery and equipment	1,621,903	98,592	65,241	1,655,254
Total accumulated depreciation	<u>4,351,190</u>	<u>363,539</u>	<u>70,775</u>	<u>4,643,954</u>
Total capital assets being depreciated, net	<u>8,921,996</u>	<u>283,037</u>	<u>-</u>	<u>9,205,033</u>
Governmental activities capital assets, net	<u>\$ 9,231,828</u>	<u>353,464</u>	<u>282,669</u>	<u>9,302,623</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 14,955
Other	8,962
Support services:	
Administration	1,878
Operation and maintenance of plant	15,383
Transportation	57,414
	<u>98,592</u>
Unallocated depreciation	<u>264,947</u>
Total governmental activities depreciation expense	<u>\$ 363,539</u>
Business type activities:	
Food services	\$ 3,794
Latch key	133
	<u>\$ 3,927</u>

**(5) Long-Term Liabilities**

A summary of changes in long-term debt for the year ended June 30, 2011 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 4,935,000	-	220,000	4,715,000	230,000
Early retirement	28,726	53,852	28,726	53,852	53,852
Net OPEB liability	267,000	292,905	-	559,905	-
Total	\$ 5,230,726	346,757	248,726	5,328,757	283,852

Business Type Activities:

Net OPEB liability	\$ 0	7,874	0	7,874	0
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General Obligation Bonds Payable

Details of the District's June 30, 2011 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Interest Rates	Bond Issue of May 1, 2003		
		Principal	Interest	Total
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	4.000	275,000	149,919	424,919
2017-2021	4.000	1,550,000	575,794	2,125,794
2022-2026	4.000-4.125	1,910,000	238,393	2,148,393
Total		\$ 4,715,000	1,665,556	6,380,556

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, 2011, totaled \$28,726. A liability has been recorded in the government-wide financial statements representing the District's commitment to fund non-current early retirement.

**(6) 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 4.50% of their annual covered salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$285,534, \$272,275 and \$249,792, respectively, equal to the required contributions for each year.

**(7) 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, 2011, 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	12,015
Adjustment to annual required contribution	(10,236)
Annual OPEB cost	<u>369,779</u>
Contributions made	<u>(69,000)</u>
Increase in net OPEB obligation	300,779
Net OPEB obligation beginning of year	<u>267,000</u>
 Net OPEB obligation end of year	 <u><u>\$ 567,779</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, 2011.

For the year ended June 30, 2011, the District contributed \$69,000 to the medical plan. Plan members eligible for benefits contributed \$49,000, or 41.53% 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, 2011 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 368,000	27.45%	\$ 267,000
2011	369,779	18.66%	567,779

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, 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 \$3,636,718 and the ratio of the UAAL to covered payroll was 86.07%. As of June 30, 2011, 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, 2011, 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.

**(8) 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, 2011 were \$640,306.

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.

**(9) 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 \$309,671 for the year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(10) Deficit Fund Balance/Net Assets**

The Enterprise, School Nutrition Fund had deficit unrestricted net assets of \$7,743 at June 30, 2011. The Student Activity Fund had a deficit unassigned fund balance of \$25,759. The Capital Projects: Physical Plant and Equipment Levy Fund had a deficit unassigned fund balance of \$4,343 at June 30, 2011.

**(11) Categorical Funding**

The District's restricted fund balance for categorical funding at June 30, 2011 is comprised of the following programs:

Program	Amount
Teacher Salary Supplement	\$ 3,330
Additional Teacher Contract Day	2,882
Professional Development for Model Core Curriculum	27,619
Professional Development	827
Statewide Voluntary Preschool	47,018
Total	<u>\$ 81,676</u>

**(12) Accounting Change/Restatement**

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassification is as follows:

	<u>Capital Projects</u>	<u>Special Revenue, Physical Plant and Equipment Levy</u>
Balances June 30, 2010 as previously reported	\$ 553,151	13,954
Change in fund type classification per implementation of GASB Statement No. 54	13,954	(13,954)
Balance July 1, 2010 as restated	<u>\$ 567,105</u>	<u>\$ 0</u>

# UNDERWOOD

COMMUNITY SCHOOL DISTRICT

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, 2011

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to
	Funds	Funds		Original	Final	Actual
	Actual	Actual				Variance
Revenues:						
Local sources	\$ 5,376,419	323,163	5,699,582	5,586,650	5,586,650	112,932
State sources	3,667,662	3,441	3,671,103	3,882,631	3,882,631	(211,528)
Federal sources	324,816	113,756	438,572	197,000	197,000	241,572
Total revenues	9,368,897	440,360	9,809,257	9,666,281	9,666,281	142,976
Expenditures/Expenses:						
Instruction	4,926,567	-	4,926,567	5,075,900	5,075,900	149,333
Support services	2,692,357	1,324	2,693,681	3,123,921	3,123,921	430,240
Non-instructional programs	-	445,367	445,367	505,000	505,000	59,633
Other expenditures	1,128,751	-	1,128,751	1,875,883	1,875,883	747,132
Total expenditures/expenses	8,747,675	446,691	9,194,366	10,580,704	10,580,704	1,386,338
Excess(Deficiency) of revenues over(under) expenditures/expenses	621,222	(6,331)	614,891	(914,423)	(914,423)	(1,529,314)
Other financing sources, net	1,600	-	1,600	1,000	1,000	(600)
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	622,822	(6,331)	616,491	(913,423)	(913,423)	(1,529,914)
Balances beginning of year	1,141,436	97,662	1,239,098	1,142,237	1,142,237	96,861
Balances end of year	\$ 1,764,258	91,331	1,855,589	228,814	228,814	1,626,775

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2011

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.

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 (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL 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%
2011	July 1, 2009	-	3,130,000	3,130,000	0.00%	3,636,718	86.07%

See Note 7 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, 2011

	Special Revenue			Debt Service	Total Other Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Total Special Revenue Funds		
<b>Assets</b>					
Cash and pooled investments	\$ 48,341	65,788	114,129	-	114,129
Receivables:					
Property tax:					
Delinquent	1,660	-	1,660	4,024	5,684
Succeeding year	10,000	-	10,000	650	10,650
<b>Total assets</b>	<b>\$ 60,001</b>	<b>65,788</b>	<b>125,789</b>	<b>4,674</b>	<b>130,463</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Due to other funds	\$ -	-	-	1,748	1,748
Deferred revenue:					
Succeeding year property tax	10,000	-	10,000	650	10,650
Total liabilities	10,000	-	10,000	2,398	12,398
Fund balances:					
Restricted for:					
Management levy purposes	50,001	-	50,001	-	50,001
Student activities	-	91,547	91,547	-	91,547
Debt service	-	-	-	2,276	2,276
Unassigned	-	(25,759)	(25,759)	-	(25,759)
Total fund balances	50,001	65,788	115,789	2,276	118,065
<b>Total liabilities and fund balances</b>	<b>\$ 60,001</b>	<b>65,788</b>	<b>125,789</b>	<b>4,674</b>	<b>130,463</b>

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, 2011

	Special Revenue				Total
	Manage- ment Levy	Student Activity	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
Revenues:					
Local sources:					
Local tax	\$ 169,753	-	169,753	419,443	589,196
Other	12,725	253,910	266,635	133	266,768
State sources	82	-	82	204	286
Total revenues	182,560	253,910	436,470	419,780	856,250
Expenditures:					
Current:					
Instruction:					
Regular	31,828	-	31,828	-	31,828
Other	-	265,747	265,747	-	265,747
	31,828	265,747	297,575	-	297,575
Support services:					
Administration	5,430	-	5,430	-	5,430
Operation and maintenance of plant	129,366	-	129,366	-	129,366
	134,796	-	134,796	-	134,796
Other expenditures:					
Long-term Debt:					
Principal	-	-	-	220,000	220,000
Interest and fiscal charges	-	-	-	200,094	200,094
	-	-	-	420,094	420,094
Total expenditures	166,624	265,747	432,371	420,094	852,465
Net change in fund balance	15,936	(11,837)	4,099	(314)	3,785
Fund balances beginning of year, as restated	34,065	77,625	111,690	2,590	114,280
Fund balances end of year	\$ 50,001	65,788	115,789	2,276	118,065

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECT ACCOUNTS  
 JUNE 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
<b>Assets</b>			
Cash and pooled investments	\$ 842,682	-	842,682
Receivables:			
Property tax:			
Delinquent	-	658	658
Succeeding year	-	3,250	3,250
Due from other funds	4,752	-	4,752
Due from other governments	100,313	-	100,313
<b>Total assets</b>	<b>\$ 947,747</b>	<b>3,908</b>	<b>951,655</b>
<b>Liabilities and fund balances</b>			
Liabilities:			
Due to other funds	-	3,004	3,004
Accounts payable	23,812	1,997	25,809
Deferred revenue			
Succeeding year property tax	-	3,250	3,250
<b>Total liabilities</b>	<b>23,812</b>	<b>8,251</b>	<b>32,063</b>
Fund balances:			
Restricted for school infrastructure	923,935	-	923,935
Unassigned	-	(4,343)	(4,343)
<b>Total fund balances</b>	<b>923,935</b>	<b>(4,343)</b>	<b>919,592</b>
<b>Total liabilities and fund balances</b>	<b>\$ 947,747</b>	<b>3,908</b>	<b>951,655</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 CAPITAL PROJECT ACCOUNTS  
 YEAR ENDED JUNE 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	\$ 692,522	68,633	761,155
Other	1,191	5	1,196
State sources	-	33	33
Federal sources	-	14,919	14,919
Total revenues	<u>693,713</u>	<u>83,590</u>	<u>777,303</u>
EXPENDITURES:			
Current:			
Support services:			
Transportation	-	25,830	25,830
Other expenditures:			
Facilities acquisitions	322,929	76,057	398,986
Total expenditures	<u>322,929</u>	<u>101,887</u>	<u>424,816</u>
Net change in fund balances	370,784	(18,297)	352,487
Fund balances beginning of year, as restated	<u>553,151</u>	<u>13,954</u>	<u>567,105</u>
Fund balances end of year	<u>\$ 923,935</u>	<u>(4,343)</u>	<u>919,592</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
YEAR ENDED JUNE 30, 2011

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama/Speech	\$ 2	-	232	(230)
Band Activity	4,236	27,498	21,570	10,164
Track Activity	(5,116)	1,842	5,658	(8,932)
Basketball Activity	788	6,061	6,100	749
Football Activity	4,165	11,241	8,664	6,742
Soccer Activity	(8,129)	1,975	3,353	(9,507)
Baseball Activity	(406)	2,064	2,717	(1,059)
Wrestling Activity	-	3,120	3,187	(67)
Volleyball Activity	-	2,082	2,521	(439)
Softball Activity	1,744	3,275	4,565	454
Activity Tickets	613	6,828	6,860	581
Golf Activity	184	3,598	4,395	(613)
Elementary Art Club	3,837	-	1,789	2,048
Baseball Club	4,503	9,529	8,680	5,352
High School Art Club	307	-	210	97
High School Concessions	-	1,390	1,689	(299)
Cross Country Club	159	2,067	1,519	707
Boys Basketball Club	1,703	7,557	7,269	1,991
FFA Account	3,671	-	-	3,671
Interest	61	190	374	(123)
Girls Basketball Club	3,193	10,192	8,568	4,817
Library Club	440	4	33	411
Football Club	1,000	17,982	15,441	3,541
Drill Team	(70)	11,861	11,265	526
Middle School Pop/Juice	711	7,686	7,272	1,125
High School Pop/Juice	146	3,363	3,432	77
Revolving	(49)	846	1,219	(422)
Soda	221	-	-	221
High School Science Club	140	-	-	140
Softball Club	3,584	8,755	8,331	4,008
Elementary Student Council	2,107	4,060	3,847	2,320
Middle School Student Council	882	2,534	2,625	791
High School Student Council	347	825	1,125	47
High School Boys Track Club	151	3,655	3,899	(93)
FCCLA/FHA Account	50	-	-	50
High Vocal Activity	393	2,576	1,996	973
High School Volleyball Club	1,067	8,192	8,543	716
Weightlifting Club	811	-	506	305
Softball Pitching	36	-	-	36
High School Wrestling Club	967	5,077	5,622	422
High School Yearbook	(4,244)	3,162	2,500	(3,582)
High School Girls Track Club	816	747	1,192	371
Wrestling Camp	14	-	-	14

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Basketball Cheerleading	1,769	-	-	1,769
Football Cheerleading	-	1,265	390	875
Wrestling Cheerleading	-	113	113	-
Elementary Field Trip	115	410	410	115
Elementary Student Directory	1,498	-	-	1,498
Middle School Leadership	1,155	1,378	1,457	1,076
Peers	158	-	-	158
Middle School Quest	3,446	591	1,549	2,488
SOS Account	216	-	-	216
Sweatshirts	320	371	-	691
Middle School TAG	17	-	-	17
Alumni	421	-	-	421
Spanish Club	120	264	277	107
JH Volleyball Club	126	550	509	167
Jump Rope for Heart	100	-	-	100
Elementary Playground Acct	517	-	469	48
Fellowship Athletes	79	-	-	79
Middle School Wrestling Club	91	2,481	2,414	158
Middle School Yearbook	877	15	-	892
Middle School Activity Center	854	-	-	854
Middle School Vocal Activity	3,702	-	500	3,202
Elementary Music	919	1,071	706	1,284
Home/School Partnership	57	-	-	57
Elementary PAC	28,814	24,735	37,559	15,990
Pott City Spelling Bee	75	-	-	75
JH Girls Track Club	101	1,040	958	183
Girard Memorial Library Fund	165	-	-	165
Special Ed Project	139	-	-	139
Band Flag Corp	87	206	-	293
JH Football Club	18	-	-	18
JH Basketball Club	9	-	-	9
JH Boys Track Club	(343)	-	-	(343)
Class of 2008	28	-	-	28
Class of 2009	508	-	100	408
Class of 2010	793	-	498	295
Class of 2011	1,027	2,700	3,338	389
Class of 2012	888	5,748	5,727	909
Class of 2013	(25)	4,079	3,679	375
Class of 2014	-	-	50	(50)
Adopt Instrument Fund	19	-	-	19
Band/Chicago Trip	486	14,838	14,845	479
BB/SB Complex	1,651	600	1,900	351
Fall Baseball League	860	-	265	595
Girls Soccer Club	115	5,765	5,137	743
Boys Soccer Club	368	3,676	4,044	-
National Honor Society	250	180	85	345
Total	\$ 77,625	253,910	265,747	65,788

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
 FIDUCIARY FUND - PRIVATE PURPOSE TRUST FUNDS  
 COMBINING BALANCE SHEET  
 JUNE 30, 2011

	Private Purpose Trust - Scholarship Fund					
	Armstrong Scholarship	Boyer Scholarship	Torneton Scholarship	Wyland Scholarship	Health Committee	Total
<b>Assets</b>						
Cash and pooled investments	\$ 6,227	8,325	502	3,817	1,149	20,020
<b>Liabilities</b>						
	-	-	-	-	-	-
<b>Net Assets</b>						
Reserved for scholarships	\$ 6,227	8,325	502	3,817	1,149	20,020

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, 2011

	Private Purpose Trust - Scholarship Fund					Total
	Armstrong Scholarship	Boyer Scholarship	Torneton Scholarship	Wyland Scholarship	Health Committee	
Additions:						
Local sources:						
Gifts and contributions	\$ -	-	-	-	1,149	1,149
Interest income	77	59	-	100	-	236
Total Additions	77	59	-	100	1,149	1,385
Deductions:						
Instruction:						
Regular:						
Scholarships awarded	100	100	115	-	-	315
Total deductions	100	100	115	-	-	315
Change in net assets	(23)	(41)	(115)	100	1,149	1,070
Net assets beginning of year	6,250	8,366	617	3,717	-	18,950
Net assets end of year	\$ 6,227	8,325	502	3,817	1,149	20,020

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 EIGHT YEARS

	Modified Accrual Basis							
	Years Ended June 30,							
	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:								
Local sources:								
Local tax	\$ 4,272,752	3,859,248	3,559,351	3,386,665	2,684,647	2,498,730	2,207,926	2,233,396
Tuition	631,429	529,795	582,847	535,398	530,597	496,622	489,707	399,863
Other	472,238	342,911	593,388	700,548	617,450	414,695	478,538	334,416
State sources	3,667,662	3,110,998	3,559,813	3,291,054	3,188,309	3,036,025	2,847,711	2,651,484
Federal sources	324,816	520,064	187,622	120,635	107,984	104,438	86,427	50,790
Total	\$ 9,368,897	8,363,016	8,483,021	8,034,300	7,128,987	6,550,510	6,110,309	5,669,949
Expenditures:								
Current:								
Instruction:								
Regular	\$ 3,311,541	3,298,465	3,234,551	2,818,043	2,524,275	2,534,795	2,387,862	2,356,053
Special	788,499	679,912	618,625	491,819	578,620	543,956	505,093	543,316
Other	826,527	809,326	725,085	690,333	611,006	613,966	614,014	470,998
Support services:								
Student	157,903	156,686	150,195	132,163	150,554	152,881	167,985	149,960
Instructional staff	271,138	275,727	216,595	278,716	222,390	215,561	221,128	183,763
Administration	914,131	897,778	878,294	857,999	798,067	702,332	665,318	554,918
Operation and maintenance of plant	876,114	791,686	794,137	679,452	608,972	609,510	650,068	597,250
Transportation	473,071	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	398,986	671,535	3,136,148	4,881,798	1,070,435	69,183	87,497	127,711
Long-term debt:								
Principal	220,000	215,000	205,000	90,000	-	-	-	-
Interest and fiscal charges	200,094	209,181	217,894	313,935	54,766	-	-	-
AEA flow-through	309,671	297,169	263,267	232,064	222,271	206,685	194,509	189,817
Total	\$ 8,747,675	8,715,853	10,913,194	11,895,215	7,157,101	5,986,450	5,842,445	5,436,866

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

# **NOLTE, CORNMAN & JOHNSON P.C.**

**Certified Public Accountants**

**(a professional corporation)**

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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, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 13, 2012. 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, 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 I of the accompanying Schedule of Findings as item I-A-11 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 II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Underwood Community School District and other parties to whom Underwood Community School District may report, including federal awarding agencies and pass-through entities, 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 13, 2012

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011

**Part I: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCY:**

I-A-11 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.

**OTHER MATTERS:**

I-B-11 Student Activity Fund-Fundraisers - We noted during our audit that the District maintains fundraisers in the Student Activity Fund, however they are not approved by the Board. We recommend that all fundraisers be approved by Board.

Recommendation - Districts should have policies and/or procedures in place to address fund-raising activity including:

- a. The Board or its designee should approve all District-sponsored fundraising activity.
- b. The Board may also adopt a policy to require Board approval of all fundraising activity including fundraising activities of affiliated organizations such as Booster Clubs and the PTO.
- c. The Board should establish procedures for fund-raising activities for District sponsored fund-raisers as well as fund-raisers sponsored by outside groups and organizations to help ensure consistency and accountability over fund-raising activities.
- d. The Board should determine the extent, if any, of administrative support to be provided for District-sponsored and affiliated organization fundraising activity including the cost and/or expense associated with staff time used in collecting payments; preparing, printing and/or assembling mailings; postage; etc.
- e. Fund-raising activity should be clearly designated as District-sponsored and/or sponsored by an outside group or affiliated organization to clearly establish responsibility and accountability.
- f. If District-sponsored, the District should account for the fund-raising activity.

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.

**Part II: Other Findings Related to Required Statutory Reporting:**

- II-A-11 Certified Budget - District disbursements for the year ended June 30, 2011, did not exceed the amount budgeted.
- II-B-11 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-11 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-11 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	\$20,333

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

- II-E-11 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-11 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-11 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.
- II-H-11 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- II-I-II Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy. However, we did note that the District was not receiving the proper interest rate, set by the State Rate Setting Committee, on their Certificate of Deposit at American-Peoples National Bank.

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

Response - We contacted our bank and rectified the situation.

Conclusion - Response accepted.

II-J-11 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-K-11 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.

II-L-11 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.3 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified annual reports (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$ 553,151
Revenues:		
Sales tax revenues	\$ 692,522	
Other local revenues	1,191	693,713
		<u>1,246,864</u>
Expenditures/transfers out:		
School infrastructure construction		<u>322,929</u>
Ending balance		<u>\$ 923,935</u>

There was no tax reduction as a result of the statewide sales, services and use tax received during the year ended June 30, 2011.

II-M-11 Financial Condition - The District has a deficit unrestricted net assets in the Enterprise, School Nutrition Fund of \$7,743. The District Student Activity Fund had a deficit unassigned fund balance of \$25,759. The Capital Projects: Physical Plant and Equipment Levy Fund had a deficit unassigned fund balance of \$4,343 at June 30, 2011.

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

Response - We are continually working on measures to reduce deficit balances. We will increase our nutrition fund fees and monitor our expenses closely. Some of the negative balances in the Student Activity Fund are due to the startup cost of an athletic soccer program.

Conclusion - Response accepted.

II-N-11 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 1<sup>st</sup>. The District should submit the outstanding checks to the State Treasurer as unclaimed property.

Response - We will be working on getting the outstanding checks cleared annually and prior to November 1<sup>st</sup>.

Conclusion - Response accepted.

II-O-11 Officiating Contracts - We noted during our audit that the Athletic Director and Superintendent were signing Activity Fund officiating contracts. According to 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should have the Board President sign all contracts entered into by the District to be in compliance with 291.1 of the Code of Iowa.

Response - The Board President's signature will be on all contracts.

Conclusion - Response accepted.