

UNDERWOOD COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2013

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Underwood Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
Bill Bracker	President	2015
Keith Peterson	Vice President	2013
John Rasmussen	Board Member	2013
Becky Constant	Board Member	2015
Neil Darrington	Board Member	2015

**School Officials**

Edward Hawks	Superintendent	2013
Andrea Raes	District Secretary and Treasurer	2013
Ahlers & Cooney P.C.	Attorney	2013

# UNDERWOOD

COMMUNITY SCHOOL DISTRICT

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

**INDEPENDENT AUDITOR'S REPORT**

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

**Report on the Financial Statements**

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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**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 as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Members American Institute & Iowa Society of Certified Public Accountants

## **Other Matters**

### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 44 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

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 third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 8 are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated March 4, 2014 on our consideration of Underwood Community School District's internal control over financial reporting and on 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 in considering Underwood Community School District's internal control over financial reporting and compliance.



NOLTE, CORNMAN & JOHNSON, P.C.

March 4, 2014  
Newton, Iowa

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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, 2013. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2013 FINANCIAL HIGHLIGHTS**

- General Fund revenues decreased from \$7,640,251 in fiscal 2012 to \$7,631,055 in fiscal 2013, while General Fund expenditures increased from \$7,444,840 in fiscal 2012 to \$7,715,727 in fiscal 2013. This contributed to a decrease in the District's General Fund balance from \$922,012 in fiscal 2012 to \$837,340 in fiscal 2013, a 9.18% decrease from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in local sources of revenue in fiscal 2013. The increase in expenditures was due to increased costs of instruction and support services.

### **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 Position 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.

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.

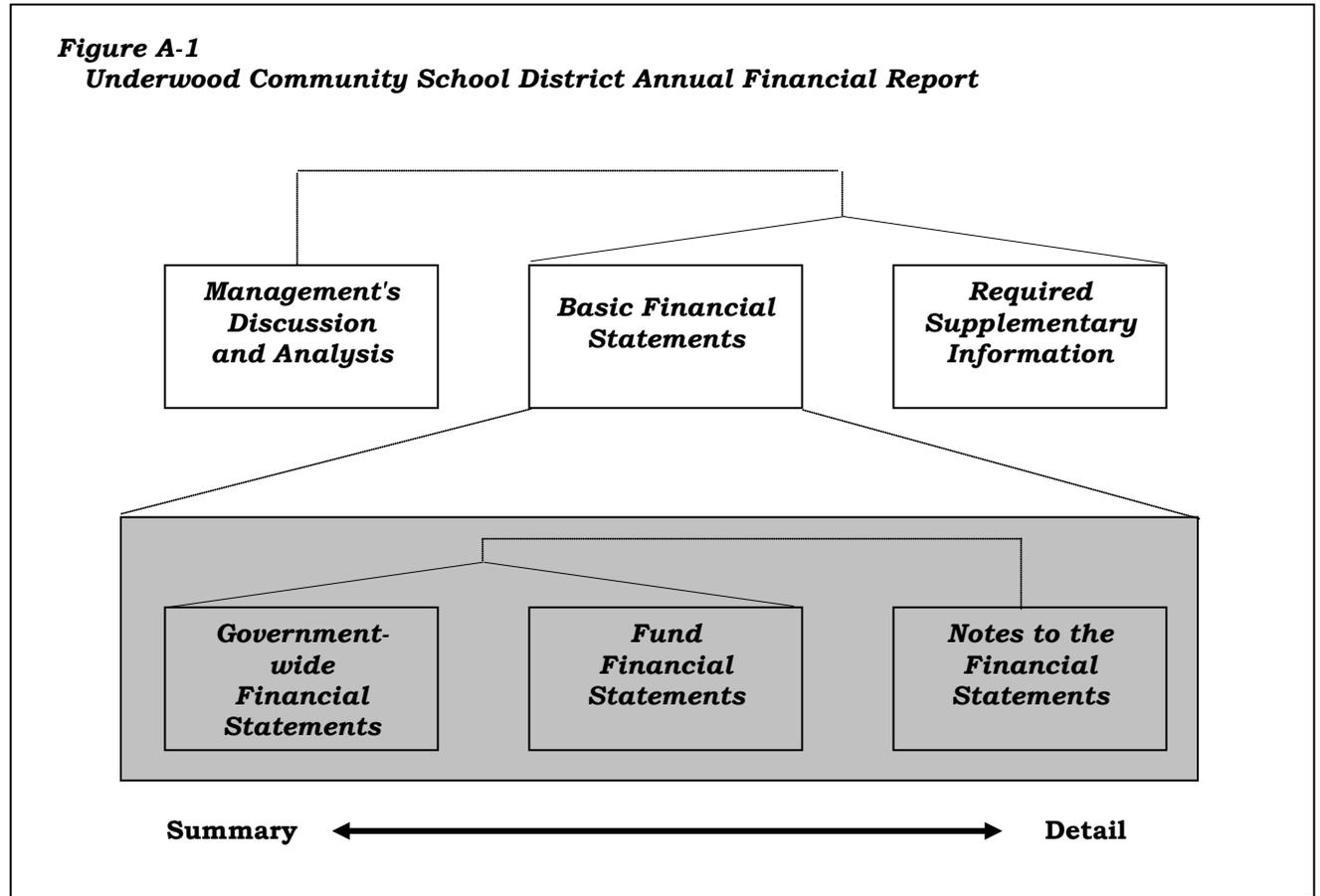


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

<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
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net position</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 net position</li> <li>• Statement of revenues, expenses and changes in fund net position</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net position</li> <li>• Statement of changes in fiduciary net position</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 Position 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 position and how it has changed. Net position – 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 position is 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 Position 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 Position and a Statement of Changes in Fiduciary Net Position.

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 position at June 30, 2013 compared to June 30, 2012.

Figure A-3 Condensed Statement of Net Position								
	Governmental Activities		Business Type Activities		Total District		Total Change	
	June 30,		June 30,		June 30,		June 30,	
	2013	2012	2013	2012	2013	2012	2012-13	
Current and other assets	\$ 8,837,078	6,245,783	80,865	93,550	8,917,943	6,339,333	40.68%	
Capital assets	13,068,262	10,110,824	66,159	32,101	13,134,421	10,142,925	29.49%	
Total assets	21,905,340	16,356,607	147,024	125,651	22,052,364	16,482,258	33.79%	
Long-term liabilities	11,362,780	5,369,559	22,220	11,956	11,385,000	5,381,515	111.56%	
Other liabilities	4,758,056	5,112,327	33,711	33,192	4,791,767	5,145,519	-6.87%	
Total liabilities	16,120,836	10,481,886	55,931	45,148	16,176,767	10,527,034	53.67%	
Net position:								
Invested in capital assets, net of related debt	4,619,285	5,625,824	66,159	32,101	4,685,444	5,657,925	-17.19%	
Restricted	1,357,688	662,927	-	-	1,357,688	662,927	104.80%	
Unrestricted	(192,469)	(414,030)	24,934	48,402	(167,535)	(365,628)	-54.18%	
Total net position	\$ 5,784,504	5,874,721	91,093	80,503	5,875,597	5,955,224	-1.34%	

The District's combined net position decreased by \$79,627 or 1.34% from the prior year. The largest portion of the District's net position is 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 position represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net position increased \$694,761 or 104.80% from the prior year. The increase in restricted net position is due in part to the increase in fund balance of the Student Activity Fund and the Management Levy Fund.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - decreased \$198,093 or 54.18%. The decrease in unrestricted net position is due to the decrease in fund balance of the General Fund.

Figure A-4 shows the changes in net position for the year ended June 30, 2013 compared to the year ended June 30, 2012.

Figure A-4								
Changes of Net Position								
	Governmental		Business Type		Total		Total	
	Activities		Activities		District		Change	
	June 30,		June 30,		June 30,		June 30,	
	2013	2012	2013	2012	2013	2012	2012-13	
Revenues and Transfers:								
Program revenues:								
Charges for services	\$ 1,043,707	1,019,905	317,510	324,077	1,361,217	1,343,982	1.28%	
Operating grants, contributions and restricted interest	495,338	502,832	119,075	120,364	614,413	623,196	-1.41%	
General revenues:								
Property tax	3,608,729	3,639,559	-	-	3,608,729	3,639,559	-0.85%	
Statewide sales, services and use tax	676,870	667,716	-	-	676,870	667,716	0.00%	
Unrestricted state grants	3,388,524	3,378,531	-	-	3,388,524	3,378,531	0.30%	
Nonspecific program federal grants	-	2,165	-	-	-	2,165	-100.00%	
Unrestricted investment earnings	11,747	6,326	-	-	11,747	6,326	85.69%	
Other	33,229	61,233	1,160	-	34,389	61,233	-43.84%	
Transfers	(16,899)	-	16,899	-	-	-	0.00%	
Total revenues and transfers	9,241,245	9,278,267	454,644	444,441	9,695,889	9,722,708	-0.28%	
Program expenses:								
Governmental activities:								
Instruction	5,233,800	5,063,612	-	-	5,233,800	5,063,612	3.36%	
Support services	3,198,321	2,888,388	-	-	3,198,321	2,888,388	10.73%	
Non-instructional programs	-	-	444,054	455,269	444,054	455,269	-2.46%	
Other expenses	899,341	1,157,954	-	-	899,341	1,157,954	-22.33%	
Total expenses	9,331,462	9,109,954	444,054	455,269	9,775,516	9,565,223	2.20%	
Change in net position	(90,217)	168,313	10,590	(10,828)	(79,627)	157,485	150.56%	
Net position beginning of year	5,874,721	5,706,408	80,503	91,331	5,955,224	5,797,739	2.72%	
Net position end of year	\$ 5,784,504	5,874,721	91,093	80,503	5,875,597	5,955,224	-1.34%	

In fiscal 2013, property tax, statewide sales, services and use tax and unrestricted state grants account for 83.04% of the revenue from governmental activities while charges for services and operating grants and contributions account for 96.03% of the revenue from business type activities.

The District's total revenues were approximately \$9.70 million, of which approximately \$9.24 million was for governmental activities and approximately \$0.46 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a decrease of 0.28% in revenues and a 2.20% increase in expenses. The decrease in revenues can be attributable to the decrease in local source revenues received by the District as compared to the previous year. The increase in expenses was related to the increases in expenditures in the instruction and support services functions.

### Governmental Activities

Revenues for governmental activities were \$9,241,245 and expenses were \$9,331,462.

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, 2013 compared to the year ended June 30, 2012.

	Total Cost of Services			Net Cost of Services		
	2013	2012	Change 2012-13	2013	2012	Change 2012-13
Instruction	\$ 5,233,800	5,063,612	3.36%	3,985,520	3,835,961	3.90%
Support services	3,198,321	2,888,388	10.73%	3,187,761	2,873,737	10.93%
Other expenses	899,341	1,157,954	-22.33%	619,136	877,519	-29.44%
Totals	<u>\$ 9,331,462</u>	<u>9,109,954</u>	<u>2.43%</u>	<u>7,792,417</u>	<u>7,587,217</u>	<u>2.70%</u>

For the year ended June 30, 2013:

- The cost financed by users of the District's programs was \$1,043,707.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$495,338.
- The net cost of governmental activities was financed with \$3,608,729 in property tax, \$676,870 in statewide sales, services and use tax, \$3,388,524 in unrestricted state grants, \$11,747 in interest income and \$16,330 in other general revenues net of transfers.

### Business type Activities

Revenues of the District's business type activities were \$454,644 and expenses were \$444,054. 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 \$4,141,149, an increase from last year's ending fund balance of \$1,153,522. The primary reason for the increase in combined fund balances is due to unspent revenue bond proceeds from the July 1, 2012 issue.

### **Governmental Fund Highlights**

- The District's General Fund balance decreased from \$922,012 on June 30, 2012 to \$837,340 on June 30, 2013. The District's General Fund financial position is the product of many factors. The reduction in the amount of revenues received from local sources coupled with an increase in expenditures as compared to the previous year led to the decrease in fund balance.
- The Capital Projects accounts balance increased from \$122,249 at June 30, 2012 to \$2,317,445 at June 30, 2013. The main reason for the increase in Capital Project accounts balance is due to there being \$1,996,023 in unspent revenue bond proceeds at June 30, 2013.
- The Debt Service Fund balance increased from \$2,371 on June 30, 2012 to \$840,292 on June 30, 2013. The increase in fund balance in the Debt Service Fund is attributable to the creation of the revenue bond reserve for the bonds issued July 1, 2012.

### **Proprietary Fund Highlights**

The School Nutrition Fund net position increased from \$16,189 at June 30, 2012 to \$31,823 at June 30, 2013, representing an increase of 96.57%. The increase in net position is mainly attributable to the capitalization of new capital assets purchased for the School Nutrition Fund during the year.

The Latch Key Fund net position decreased from \$64,314 at June 30, 2012 to \$59,270 at June 30, 2013, representing a decrease of 7.84%. The decrease in charges for services as compared to the previous year was a contributing factor in the decrease in fund balance.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, Underwood Community School District amended its budget one time to reflect additional expenditures for new playground equipment and construction costs for building additions at the high school.

The District's revenues were \$15,642 more than budgeted revenues, a variance of 0.16%. The most significant variance resulted from the District receiving more from local sources than originally anticipated.

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, 2013, the District had invested \$13,134,421, 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 29.49% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$428,043.

The original cost of the District's capital assets was \$18,474,210. Governmental funds account for \$18,362,796 with the remainder of \$111,114 in the Proprietary, School Nutrition and Latch Key Fund.

The largest percentage change in capital asset activity during the year occurred in the land improvements category. Land improvements totaled \$161,447 at June 30, 2012, compared to \$886,586 reported at June 30, 2013. This increase is attributed to the capitalization of the improvement projects completed on the track area.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Land	\$ 97,590	97,590	-	-	97,590	97,590	0.00%
Construction in progress	3,414,812	904,809	-	-	3,414,812	904,809	277.41%
Buildings	8,332,294	8,591,582	-	-	8,332,294	8,591,582	-3.02%
Land improvements	886,586	161,447	-	-	886,586	161,447	449.15%
Furniture and equipment	336,980	355,396	66,159	32,101	403,139	387,497	4.04%
Total	<u>\$ 13,068,262</u>	<u>10,110,824</u>	<u>66,159</u>	<u>32,101</u>	<u>13,134,421</u>	<u>10,142,925</u>	<u>29.49%</u>

### Long-Term Debt

At June 30, 2013, the District had \$11,385,000 in general and other long-term debt outstanding. This represents an increase of 111.56% 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 \$4,245,000 at June 30, 2013.

The District had total Revenue Bonds payable of \$6,200,000 at June 30, 2013.

The District had total outstanding Net OPEB liability payable totaling \$940,000 at June 30, 2013.

Figure A-7  
Outstanding Long-Term Obligations

	Governmental Activities		Business type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	Change
General obligation bonds	\$ 4,245,000	4,485,000	-	-	4,245,000	4,485,000	-5.35%
Revenue bonds	6,200,000	-	-	-	6,200,000	-	100.00%
Termination benefits	-	32,954	-	-	-	32,954	-100.00%
Net OPEB obligation	917,780	851,605	22,220	11,956	940,000	863,561	8.85%
<b>Total</b>	<b>\$ 11,362,780</b>	<b>5,369,559</b>	<b>22,220</b>	<b>11,956</b>	<b>11,385,000</b>	<b>5,381,515</b>	<b>111.56%</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 may impact the District's spending authority.
- Decreases in enrollment over the past few years may impact the District's spending authority.

### **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 Raes, District Secretary/Treasurer, Underwood Community School District, P.O. Box 130, Underwood, Iowa, 51576.

BASIC FINANCIAL STATEMENTS

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2013

	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 4,969,840	75,305	5,045,145
Receivables:			
Property tax:			
Delinquent	30,294	-	30,294
Succeeding year	3,585,883	-	3,585,883
Accounts	119	-	119
Due from other governments	250,942	-	250,942
Inventories	-	5,560	5,560
Capital assets, net of accumulated depreciation	13,068,262	66,159	13,134,421
<b>TOTAL ASSETS</b>	<b>21,905,340</b>	<b>147,024</b>	<b>22,052,364</b>
<b>LIABILITIES</b>			
Accounts payable	335,906	-	335,906
Salaries and benefits payable	743,138	30,449	773,587
Accrued interest payable	93,129	-	93,129
Deferred revenue:			
Succeeding year property tax	3,585,883	-	3,585,883
Unearned revenues	-	3,262	3,262
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	250,000	-	250,000
Revenue bonds payable	320,000	-	320,000
Portion due after one year:			
General obligation bonds payable	3,995,000	-	3,995,000
Revenue bonds payable	5,880,000	-	5,880,000
Net OPEB liability	917,780	22,220	940,000
<b>TOTAL LIABILITIES</b>	<b>16,120,836</b>	<b>55,931</b>	<b>16,176,767</b>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	4,619,285	66,159	4,685,444
Restricted for:			
Categorical funding	111,157	-	111,157
School infrastructure	320,225	-	320,225
Management levy	65,373	-	65,373
Physical plant and equipment levy	1,197	-	1,197
Student activities	112,573	-	112,573
Debt service	747,163	-	747,163
Unrestricted	(192,469)	24,934	(167,535)
<b>TOTAL NET POSITION</b>	<b>\$ 5,784,504</b>	<b>91,093</b>	<b>5,875,597</b>

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2013

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
<b>Functions/Programs:</b>						
Governmental activities:						
Instruction:						
Regular	\$ 3,632,202	670,556	25,115	(2,936,531)	-	(2,936,531)
Special	672,060	93,090	42,363	(536,607)	-	(536,607)
Other	929,538	277,540	139,616	(512,382)	-	(512,382)
	<u>5,233,800</u>	<u>1,041,186</u>	<u>207,094</u>	<u>(3,985,520)</u>	<u>-</u>	<u>(3,985,520)</u>
Support services:						
Student	156,274	-	-	(156,274)	-	(156,274)
Instructional staff	368,244	-	-	(368,244)	-	(368,244)
Administration	1,051,865	-	-	(1,051,865)	-	(1,051,865)
Operation and maintenance of plant	1,150,292	-	-	(1,150,292)	-	(1,150,292)
Transportation	471,646	2,521	8,039	(461,086)	-	(461,086)
	<u>3,198,321</u>	<u>2,521</u>	<u>8,039</u>	<u>(3,187,761)</u>	<u>-</u>	<u>(3,187,761)</u>
Long-term debt interest	309,554	-	-	(309,554)	-	(309,554)
Other expenses:						
AEA flowthrough	280,205	-	280,205	-	-	-
Depreciation(unallocated)*	309,582	-	-	(309,582)	-	(309,582)
	<u>899,341</u>	<u>-</u>	<u>280,205</u>	<u>(619,136)</u>	<u>-</u>	<u>(619,136)</u>
Total governmental activities	9,331,462	1,043,707	495,338	(7,792,417)	-	(7,792,417)
Non-instructional programs:						
Nutrition services	374,428	257,016	114,987	-	(2,425)	(2,425)
Latch Key	69,626	60,494	4,088	-	(5,044)	(5,044)
Total business type activities	<u>444,054</u>	<u>317,510</u>	<u>119,075</u>	<u>-</u>	<u>(7,469)</u>	<u>(7,469)</u>
Total	\$ <u>9,775,516</u>	<u>1,361,217</u>	<u>614,413</u>	<u>(7,792,417)</u>	<u>(7,469)</u>	<u>(7,799,886)</u>
<b>General Revenues &amp; Transfers:</b>						
Property tax levied for:						
General purposes				\$ 3,113,407	-	3,113,407
Debt service				420,836	-	420,836
Capital outlay				74,486	-	74,486
Statewide sales, services and use tax				676,870	-	676,870
Unrestricted state grants				3,388,524	-	3,388,524
Unrestricted investment earnings				11,747	-	11,747
Other general revenues				33,229	1,160	34,389
Transfers				(16,899)	16,899	-
Total general revenues and transfers				<u>7,702,200</u>	<u>18,059</u>	<u>7,720,259</u>
Change in net position				(90,217)	10,590	(79,627)
Net position beginning of year				<u>5,874,721</u>	<u>80,503</u>	<u>5,955,224</u>
Net position end of year				<u>\$ 5,784,504</u>	<u>91,093</u>	<u>5,875,597</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, 2013

	General	Capital Projects	Debt Service	Nonmajor	Total
<b>ASSETS</b>					
Cash and pooled investments	\$ 1,481,526	2,476,023	836,816	144,473	4,938,838
Receivables:					
Property tax:					
Delinquent	24,604	615	3,476	1,599	30,294
Succeeding year	2,897,807	77,357	420,720	189,999	3,585,883
Accounts	119	-	-	-	119
Due from other governments	149,891	101,051	-	-	250,942
<b>TOTAL ASSETS</b>	<b>\$ 4,553,947</b>	<b>2,655,046</b>	<b>1,261,012</b>	<b>336,071</b>	<b>8,806,076</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 75,662	260,244	-	-	335,906
Salaries and benefits payable	743,138	-	-	-	743,138
Deferred revenue:					
Succeeding year property tax	2,897,807	77,357	420,720	189,999	3,585,883
Total liabilities	<u>3,716,607</u>	<u>337,601</u>	<u>420,720</u>	<u>189,999</u>	<u>4,664,927</u>
Fund balances:					
Restricted for:					
Categorical funding	111,157	-	-	-	111,157
School infrastructure	-	2,316,248	-	-	2,316,248
Management levy purposes	-	-	-	65,373	65,373
Physical plant and equipment	-	1,197	-	-	1,197
Student activities	-	-	-	112,573	112,573
Debt service	-	-	840,292	-	840,292
Unassigned:					
General	726,183	-	-	-	726,183
Student activities	-	-	-	(31,874)	(31,874)
Total fund balances	<u>837,340</u>	<u>2,317,445</u>	<u>840,292</u>	<u>146,072</u>	<u>4,141,149</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 4,553,947</b>	<b>2,655,046</b>	<b>1,261,012</b>	<b>336,071</b>	<b>8,806,076</b>

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET POSITION  
 JUNE 30, 2013

<b>Total fund balances of governmental funds(page 20)</b>		\$ 4,141,149
 <b>Amounts reported for governmental activities in the Statement of Net Position is 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.		13,068,262
Blending of the Internal Service Fund to be reflected on an entity-wide basis.		31,002
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.		(93,129)
Long-term liabilities, including bonds 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>(11,362,780)</u>
<b>Net position of governmental activities(page 18)</b>		<u><u>\$ 5,784,504</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, 2013

	General	Capital Projects	Debt Service	Nonmajor	Total
REVENUES:					
Local sources:					
Local tax	\$ 2,923,444	751,356	420,836	189,963	4,285,599
Tuition	683,714	-	-	-	683,714
Other	137,070	8,168	1,093	258,638	404,969
State sources	3,779,461	34	190	85	3,779,770
Federal sources	104,092	-	-	-	104,092
<b>TOTAL REVENUES</b>	<b>7,627,781</b>	<b>759,558</b>	<b>422,119</b>	<b>448,686</b>	<b>9,258,144</b>
EXPENDITURES:					
Current:					
Instruction:					
Regular	3,501,850	115,166	-	32,999	3,650,015
Special	684,817	-	-	-	684,817
Other	591,601	-	-	233,257	824,858
	<b>4,778,268</b>	<b>115,166</b>	<b>-</b>	<b>266,256</b>	<b>5,159,690</b>
Support services:					
Student	165,059	-	-	-	165,059
Instructional staff	374,339	-	-	-	374,339
Administration	942,424	23,023	-	5,821	971,268
Operation and maintenance of plant	738,026	16,899	-	123,179	878,104
Transportation	437,406	17,948	-	14,248	469,602
	<b>2,657,254</b>	<b>57,870</b>	<b>-</b>	<b>143,248</b>	<b>2,858,372</b>
Capital outlay	-	3,605,371	-	-	3,605,371
Long-term debt:					
Principal	-	-	240,000	-	240,000
Interest and fiscal charges	-	-	246,511	-	246,511
	<b>-</b>	<b>-</b>	<b>486,511</b>	<b>-</b>	<b>486,511</b>
Other expenditures:					
AEA flowthrough	280,205	-	-	-	280,205
<b>TOTAL EXPENDITURES</b>	<b>7,715,727</b>	<b>3,778,407</b>	<b>486,511</b>	<b>409,504</b>	<b>12,390,149</b>
Excess(Deficiency) of revenues over(under) expenditures	(87,946)	(3,018,849)	(64,392)	39,182	(3,132,005)
OTHER FINANCING SOURCES(USES):					
Sale of equipment	3,274	-	-	-	3,274
Transfer in	-	-	902,313	-	902,313
Transfer out	-	(902,313)	-	-	(902,313)
Revenue bond issuance	-	6,200,000	-	-	6,200,000
Premium on revenue bond issuance	-	5,591	-	-	5,591
Discount on revenue bond issuance	-	(89,233)	-	-	(89,233)
<b>TOTAL OTHER FINANCING SOURCES(USES)</b>	<b>3,274</b>	<b>5,214,045</b>	<b>902,313</b>	<b>-</b>	<b>6,119,632</b>
Change in fund balances	(84,672)	2,195,196	837,921	39,182	2,987,627
Fund balances beginning of year	922,012	122,249	2,371	106,890	1,153,522
Fund balances end of year	<b>\$ 837,340</b>	<b>2,317,445</b>	<b>840,292</b>	<b>146,072</b>	<b>4,141,149</b>

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, 2013

Change in fund balances - total governmental funds(page 22) \$ 2,987,627

**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 not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlay and depreciation expense in the year are as follows:

Capital outlay	\$ 3,378,150	
Depreciation expense	(420,712)	2,957,438

Net change in the Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. 20,982

Proceeds from issuing long-term liabilities provide current financial resources to government funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Current year issues exceeded repayments shown as follows:

Issued	(6,200,000)	
Repaid	240,000	(5,960,000)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. (63,043)

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:

Termination benefits	32,954	
Other postemployment benefits	(66,175)	(33,221)

**Change in net position of governmental activities(page 19) \$ (90,217)**

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2013

	Business Type Activities: Enterprise Funds			Governmental Activities: Internal Service Fund
	School Nutrition	Latch Key	Total	
<b>Assets</b>				
Cash and pooled investments	\$ 22,520	52,785	75,305	31,002
Inventories	5,560	-	5,560	-
Capital assets, net of accumulated depreciation	42,508	23,651	66,159	-
<b>TOTAL ASSETS</b>	<b>70,588</b>	<b>76,436</b>	<b>147,024</b>	<b>31,002</b>
<b>LIABILITIES</b>				
Salaries and benefits payable	24,393	6,056	30,449	-
Unearned revenue	3,262	-	3,262	-
Net OPEB liability	11,110	11,110	22,220	-
<b>TOTAL LIABILITIES</b>	<b>38,765</b>	<b>17,166</b>	<b>55,931</b>	<b>-</b>
<b>NET POSITION</b>				
Invested in capital assets	42,508	23,651	66,159	-
Unrestricted	(10,685)	35,619	24,934	31,002
<b>TOTAL NET POSITION</b>	<b>\$ 31,823</b>	<b>59,270</b>	<b>91,093</b>	<b>31,002</b>

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2013

	Business Type Activities: Enterprise Funds			Governmental Activities: Internal Service Fund
	School Nutrition	Latch Key	Total	
Operating revenues:				
Local sources:				
Charges for services	\$ 257,016	60,494	317,510	-
Miscellaneous	1,160	-	1,160	765,260
Total operating revenues	258,176	60,494	318,670	765,260
Non-instructional programs:				
Food service operations:				
Salaries	124,697	-	124,697	-
Benefits	36,749	-	36,749	-
Services	330	-	330	-
Supplies	207,184	-	207,184	-
Other	311	-	311	-
Depreciation	5,157	-	5,157	-
	374,428	-	374,428	-
Other enterprise operations:				
Salaries	-	49,137	49,137	-
Benefits	-	15,206	15,206	744,278
Supplies	-	3,109	3,109	-
Depreciation	-	2,174	2,174	-
	-	69,626	69,626	744,278
Total non-instruction programs	374,428	69,626	444,054	744,278
Operating income(loss)	(116,252)	(9,132)	(125,384)	20,982
Non-operating revenues:				
State sources	3,345	4,088	7,433	-
Federal sources	111,642	-	111,642	-
Total non-operating revenues	114,987	4,088	119,075	-
Change in net position before other financing sources	(1,265)	(5,044)	(6,309)	20,982
OTHER FINANCING SOURCES:				
Capital contribution	16,899	-	16,899	-
Change in net position	15,634	(5,044)	10,590	20,982
Net position beginning of year	16,189	64,314	80,503	10,020
Net position end of year	\$ 31,823	59,270	91,093	31,002

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2013

	Business Type Activities:			Governmental
	Enterprise Funds			Activities:
	School	Latch	Total	Internal
Nutrition	Key	Service		Fund
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 257,135	-	257,135	-
Cash received from Latch Key operations	-	60,494	60,494	-
Cash received from miscellaneous operating activities	1,160	-	1,160	765,260
Cash payments to employees for services	(152,578)	(62,547)	(215,125)	-
Cash payments to suppliers for goods or services	(179,681)	(3,109)	(182,790)	(744,278)
Net cash provided by(used in) operating activities	(73,964)	(5,162)	(79,126)	20,982
Cash flows from non-capital financing activities:				
State grants received	3,345	4,088	7,433	-
Federal grants received	86,327	-	86,327	-
Net cash provided by non-capital financing activities	89,672	4,088	93,760	-
Cash flows from capital and related financing activities:				
Purchase of capital assets	-	(24,490)	(24,490)	-
Net increase(decrease) in cash and cash equivalents	15,708	(25,564)	(9,856)	20,982
Cash and cash equivalents at beginning of year	6,812	78,349	85,161	10,020
Cash and cash equivalents at end of year	\$ 22,520	52,785	75,305	31,002
<b>Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:</b>				
Operating income(loss)	\$ (116,252)	(9,132)	(125,384)	20,982
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:				
Commodities consumed	25,315	-	25,315	-
Depreciation	5,157	2,174	7,331	-
Increase in salaries and benefits payable	189	211	400	-
Decrease in inventories	2,829	-	2,829	-
Increase in unearned revenue	119	-	119	-
Increase in other postemployment benefits	8,679	1,585	10,264	-
Net cash provided by(used in) operating activities	\$ (73,964)	(5,162)	(79,126)	20,982

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

During the year ended June 30, 2013, the District received \$25,315 of federal commodities.

During the year ended June 30, 2013, the Nutrition Fund received a capital contribution of \$16,899 from the Capital Projects: Statewide Sales, Services and Use Tax Fund.

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY NET POSITION  
 FIDUCIARY FUND  
 JUNE 30, 2013

	Private Purpose Trust Scholarship
<b>ASSETS</b>	
Cash and pooled investments	\$ 22,672
<b>LIABILITIES</b>	-
<b>NET POSITION</b>	
Restricted for scholarships	18,768
Restricted for wellness activities	3,904
<b>TOTAL NET POSITION</b>	<u>\$ 22,672</u>

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUND  
YEAR ENDED JUNE 30, 2013

	<u>Private Purpose</u> <u>Trust</u> <u>Scholarship</u>
ADDITIONS:	
Local sources:	
Gifts and contributions	\$ 2,039
Interest income	67
TOTAL ADDITIONS	<u>2,106</u>
DEDUCTIONS:	
Instruction:	
Regular:	
Scholarships awarded	100
Supplies	1,019
TOTAL DEDUCTIONS	<u>1,119</u>
Change in net position	987
Net position beginning of year	<u>21,685</u>
Net position end of year	<u>\$ 22,672</u>

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**(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 Position (formerly referred to as 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 Position presents the District's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is 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 position* results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often has 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 Accounts are used to account for all resources used in the acquisition and construction of capital facilities and other capital assets, with the exception of those that are financed through enterprise funds.

The Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the District's general long-term debt.

The District reports the following nonmajor 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 Internal Service Fund is used to account for the self-funded employee health insurance plan of the District.

The District also reports fiduciary funds which focus on net position and changes in net position. 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 is both restricted and unrestricted net position 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.

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, 2011 assessed property valuations; is for the tax accrual period July 1, 2012 through June 30, 2013 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2012.

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 Position. 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
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	1,500

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Intangibles	2 or more years
Furniture 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 Position 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 Position 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 Position.

Fund Balances - 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 Position - In the government-wide Statement of Net Position, net position is reported as restricted when constraints placed on net position 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, 2013 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 \$80,064 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investments in the Iowa Schools Joint Investment Trust were rated AAA by Standard & Poor's Financial Services.

(3) **Interfund Transfers**

Transfer to	Transfer from	Amount
	Capital Projects:	
Debt Service	Statewide Sales, Services and Use Tax	\$ 449,400
	Capital Projects:	
Debt Service	Revenue Bond Construction	452,913
Total		<u>\$ 902,313</u>

The transfer from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Debt Service Fund was needed for principal and interest payments on the District's revenue bond indebtedness.

The transfer from the Capital Projects: Revenue Bond Construction Fund to the Debt Service Fund was needed to create the revenue bond reserve for the revenue bonds dated July 1, 2012.

(4) **Capital Assets**

Capital assets activity for the year ended June 30, 2013 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End Of Year
<b>Business type activities:</b>				
Machinery and equipment	\$ 70,025	41,389	-	111,414
Less accumulated depreciation	37,924	7,331	-	45,255
Business type activities capital assets, net	<u>\$ 32,101</u>	<u>34,058</u>	-	<u>66,159</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	904,809	3,285,436	775,433	3,414,812
Total capital assets not being depreciated	<u>1,002,399</u>	<u>3,285,436</u>	<u>775,433</u>	<u>3,512,402</u>
Capital assets being depreciated:				
Buildings	11,371,585	775,433	-	12,147,018
Land improvements	640,953	-	-	640,953
Machinery and equipment	2,034,535	92,714	64,826	2,062,423
Total capital assets being depreciated	<u>14,047,073</u>	<u>868,147</u>	<u>64,826</u>	<u>14,850,394</u>
Less accumulated depreciation for:				
Buildings	2,780,003	259,288	-	3,039,291
Land improvements	479,506	50,294	-	529,800
Machinery and equipment	1,679,139	111,130	64,826	1,725,443
Total accumulated depreciation	<u>4,938,648</u>	<u>420,712</u>	<u>64,826</u>	<u>5,294,534</u>
Total capital assets being depreciated, net	<u>9,108,425</u>	<u>447,435</u>	<u>-</u>	<u>9,555,860</u>
Governmental activities capital assets, net	<u>\$ 10,110,824</u>	<u>3,732,871</u>	<u>775,433</u>	<u>13,068,262</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 10,714
Other		9,692
Support services:		
Administration		2,768
Operation and maintenance of plant		8,852
Transportation		79,104
		<u>111,130</u>
Unallocated depreciation		<u>309,582</u>
Total governmental activities depreciation expense		<u>\$ 420,712</u>
Business type activities:		
Food services		\$ 5,157
Latch key		2,174
		<u>\$ 7,331</u>

## (5) Long-Term Liabilities

A summary of changes in long-term debt for the year ended June 30, 2013 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
<b>Governmental activities:</b>					
General obligation bonds	\$ 4,485,000	-	240,000	4,245,000	250,000
Revenue bonds	-	6,200,000	-	6,200,000	320,000
Termination benefits	32,954	-	32,954	-	-
Net OPEB liability	851,605	66,175	-	917,780	-
Total	<u>\$ 5,369,559</u>	<u>6,266,175</u>	<u>272,954</u>	<u>11,362,780</u>	<u>570,000</u>
<b>Business type activities:</b>					
Net OPEB liability	\$ 11,956	10,264	-	22,220	-

General Obligation Bonds Payable

Details of the District's June 30, 2013 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Bond Issue of May 1, 2003				
	Interest Rates		Principal	Interest	Total
2014	4.00	% \$	250,000	170,318	420,318
2015	4.00		260,000	160,319	420,319
2016	4.00		275,000	149,919	424,919
2017	4.00		285,000	138,919	423,919
2018	4.00		295,000	127,518	422,518
2019-2023	4.00		1,685,000	449,194	2,134,194
2024-2026	4.00-4.14		1,195,000	98,556	1,293,556
Total			\$ 4,245,000	1,294,743	5,539,743

Revenue Bonds Payable

Details of the District's June 30, 2013 revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 1, 2012				
	Interest Rates		Principal	Interest	Total
2014	1.00	% \$	320,000	127,885	447,885
2015	1.00		325,000	124,660	449,660
2016	1.00		325,000	121,410	446,410
2017	1.00		330,000	118,135	448,135
2018	1.20		335,000	114,475	449,475
2019-2023	1.40-2.25		1,755,000	488,725	2,243,725
2024-2028	2.40-3.00		1,950,000	275,528	2,225,528
2029-2030	3.10-3.20		860,000	27,467	887,467
Total			\$ 6,200,000	1,398,285	7,598,285

The District has pledged future statewide sales, services and use tax revenues to repay the \$6,200,000 of bonds issued in July 2012. The bonds were issued for the purpose of financing a portion of the costs of renovations to the school. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2030. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 66% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the bonds is \$7,598,285. For the current year, \$64,743 of interest was paid on the bonds and the total statewide sales, services and use tax revenues were \$676,870.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- a) \$452,913 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- b) All proceeds from the statewide sales, services and use tax shall be placed in a revenue account
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project to be used for any lawful purpose.

**(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 5.78% of their annual covered salary and the District is required to contribute 8.67% of annual covered salary. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$358,618, \$334,630, and \$285,534, respectively, equal to the required contributions for each year.

**(7) Other Postemployment Benefits**

Plan Description - The District operates a single-employer health benefit plan which provides medical and vision benefits for employees, retirees and their spouses. There are 88 active and 3 retired members in the plan. Retired participants must be age 55 or older at 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, 2013, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 148,000
Interest on net OPEB obligation	39,000
Adjustment to annual required contribution	<u>(32,561)</u>
Annual OPEB cost	154,439
Contributions made	<u>(78,000)</u>
Increase in net OPEB obligation	76,439
Net OPEB obligation beginning of year	<u>863,561</u>
 Net OPEB obligation end of year	 <u><u>\$ 940,000</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2013.

For the year ended June 30, 2013, the District contributed \$78,000 to the medical plan. Plan members eligible for benefits contributed \$67,000, or 46.21% 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, 2013 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 369,779	18.66%	\$ 567,779
2012	371,782	20.44%	863,561
2013	154,439	50.51%	940,000

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$1,290,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,290,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,825,623 and the ratio of the UAAL to covered payroll was 33.72%. As of June 30, 2013, 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, 2012 actuarial valuation date, the alternative measurement 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 10.0% for the year ended June 30, 2013, grading down by 0.5% each year until an ultimate health care cost trend rate is 5.0% is reached.

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 monthly claim costs of the medical plan for retirees less than age 65 are \$1,391 per month under the PPO500 plan or \$1,248 per month under the HD1500 plan. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**(8) Risk Management**

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 \$280,205 for the year ended June 30, 2013 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(10) Categorical Funding**

The District's restricted fund balance for categorical funding at June 30, 2013 is comprised of the following programs:

Program	Amount
Professional Development for Model Core Curriculum	\$ 27,861
Four-year-old Preschool State Aid	78,631
Additional Teacher Contract Day	2,882
Professional Development	1,783
Total	<u>\$ 111,157</u>

**(11) Reconciliation of Governmental Fund Balances to Net Position**

Reconciliation of certain governmental fund balances to net position are as follows:

	Invested in Capital Assets	School Infrastructure	Debt Service	Unassigned/ Unrestricted
Fund balance (Exhibit C)	\$ -	2,316,248	840,292	726,183
Capital assets, net of accumulated depreciation	13,068,262	-	-	-
General obligation bond capitalized indebtedness	(4,245,000)	-	-	-
Revenue bond capitalized indebtedness	(4,203,977)	-	-	-
Revenue bond proceeds not expended	-	(1,996,023)	-	-
Accrued interest payable	-	-	(93,129)	-
Internal service fund	-	-	-	31,002
Net OPEB liability	-	-	-	(917,780)
Unassigned for student activities	-	-	-	(31,874)
Net position (Exhibit A)	\$ 4,619,285	320,225	747,163	(192,469)

**(12) Deficit Fund Balance/Net Position**

The District had a deficit unrestricted net position in the Enterprise, School Nutrition Fund of \$10,685. The District's Student Activity Fund had five deficit accounts with a total deficit unassigned fund balance of \$31,874. The District also had a deficit unrestricted net position in the governmental activities of \$192,469.

**(13) Construction Commitment**

The District has entered into a contracts totaling \$4,702,145 for an addition to the high school. As of June 30, 2013, costs of \$2,811,215 had been incurred against the contract. The balance of \$1,890,730 remaining at June 30, 2013 will be paid as work progresses.

# 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, 2013

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Funds	Funds		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 5,374,282	318,670	5,692,952	5,629,503	5,629,503	63,449
State sources	3,779,770	7,433	3,787,203	3,843,244	3,843,244	(56,041)
Federal sources	104,092	111,642	215,734	207,500	207,500	8,234
Total revenues	9,258,144	437,745	9,695,889	9,680,247	9,680,247	15,642
Expenditures/Expenses:						
Instruction	5,159,690	-	5,159,690	5,423,000	5,423,000	263,310
Support services	2,858,372	-	2,858,372	3,011,000	3,011,000	152,628
Non-instructional programs	-	444,054	444,054	440,000	470,000	25,946
Other expenditures	4,372,087	-	4,372,087	1,664,811	6,500,000	2,127,913
Total expenditures/expenses	12,390,149	444,054	12,834,203	10,538,811	15,404,000	2,569,797
Deficiency of revenues under expenditures/expenses	(3,132,005)	(6,309)	(3,138,314)	(858,564)	(5,723,753)	(2,585,439)
Other financing sources, net	6,119,632	16,899	6,136,531	-	-	(6,136,531)
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	2,987,627	10,590	2,998,217	(858,564)	(5,723,753)	(8,721,970)
Balances beginning of year	1,153,522	80,503	1,234,025	1,608,466	1,608,466	(374,441)
Balances end of year	\$ 4,141,149	91,093	4,232,242	749,902	(4,115,287)	8,347,529

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2013

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year the District adopted one budget amendment, increasing budgeted expenditures by \$4,865,189

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%
2012	July 1, 2009	-	3,130,000	3,130,000	0.00%	3,593,318	87.11%
2013	July 1, 2012	-	1,290,000	1,290,000	0.00%	3,825,623	33.72%

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.

SUPPLEMENTARY INFORMATION

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2013

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 63,774	80,699	144,473
Receivables:			
Property tax:			
Delinquent	1,599	-	1,599
Succeeding year	189,999	-	189,999
<b>TOTAL ASSETS</b>	<b>\$ 255,372</b>	<b>80,699</b>	<b>336,071</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	\$ 189,999	-	189,999
Total liabilities	189,999	-	189,999
Fund balances:			
Restricted for:			
Management levy purposes	65,373	-	65,373
Student activities	-	112,573	112,573
Unassigned	-	(31,874)	(31,874)
Total fund balances	65,373	80,699	146,072
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 255,372</b>	<b>80,699</b>	<b>336,071</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, 2013

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
REVENUES:			
Local sources:			
Local tax	\$ 189,963	-	189,963
Other	11,963	246,675	258,638
State sources	85	-	85
TOTAL REVENUES	<u>202,011</u>	<u>246,675</u>	<u>448,686</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular	32,999	-	32,999
Other	-	233,257	233,257
Support services:			
Administration	5,821	-	5,821
Operation and maintenance of plant	123,179	-	123,179
Transportation	14,248	-	14,248
TOTAL EXPENDITURES	<u>176,247</u>	<u>233,257</u>	<u>409,504</u>
Change in fund balances	25,764	13,418	39,182
Fund balances beginning of year	<u>39,609</u>	<u>67,281</u>	<u>106,890</u>
Fund balances end of year	<u>\$ 65,373</u>	<u>80,699</u>	<u>146,072</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECT ACCOUNTS  
 JUNE 30, 2013

	Capital Projects			
	Statewide Sales, Services and Use Tax	Revenue Bond Construction	Physical Plant and Equipment Levy	Total
<b>ASSETS</b>				
Cash and pooled investments	\$ 219,617	2,255,824	582	2,476,023
Receivables:				
Property tax:				
Delinquent	-	-	615	615
Succeeding year	-	-	77,357	77,357
Due from other governments	101,051	-	-	101,051
<b>TOTAL ASSETS</b>	<b>\$ 320,668</b>	<b>2,255,824</b>	<b>78,554</b>	<b>2,655,046</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 443	259,801	-	260,244
Deferred revenue				
Succeeding year property tax	-	-	77,357	77,357
Total liabilities	443	259,801	77,357	337,601
Fund balances:				
Restricted for:				
School infrastructure	320,225	1,996,023	-	2,316,248
Physical plant and equipment	-	-	1,197	1,197
Total fund balances	320,225	1,996,023	1,197	2,317,445
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 320,668</b>	<b>2,255,824</b>	<b>78,554</b>	<b>2,655,046</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, 2013

	Capital Projects			Total
	Statewide Sales, Services and Use Tax	Revenue Bond Construction	Physical Plant and Equipment Levy	
REVENUES:				
Local sources:				
Local tax	\$ 676,870	-	74,486	751,356
Other	926	7,191	51	8,168
State sources	-	-	34	34
TOTAL REVENUES	<u>677,796</u>	<u>7,191</u>	<u>74,571</u>	<u>759,558</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	115,166	-	-	115,166
Support services:				
Adminstration	-	23,023	-	23,023
Operation and maintenance of plant	16,899	-	-	16,899
Transportation	-	-	17,948	17,948
Capital outlay	211,368	3,331,243	62,760	3,605,371
TOTAL EXPENDITURES	<u>343,433</u>	<u>3,354,266</u>	<u>80,708</u>	<u>3,778,407</u>
OTHER FINANCING SOURCES(USES):				
Transfer out	(449,400)	(452,913)	-	(902,313)
Revenue bond issuance	-	6,200,000	-	6,200,000
Premium on revenue bond issuance	-	5,591	-	5,591
Discount on revenue bond issuance	-	(89,233)	-	(89,233)
TOTAL OTHER FINANCING SOURCES(USES)	<u>(449,400)</u>	<u>5,663,445</u>	<u>-</u>	<u>5,214,045</u>
Change in fund balances	(115,037)	2,316,370	(6,137)	2,195,196
Fund balances beginning of year	435,262	(320,347)	7,334	122,249
Fund balances end of year	<u>\$ 320,225</u>	<u>1,996,023</u>	<u>1,197</u>	<u>2,317,445</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, 2013

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance Change	Balance End of Year
Drama/Speech	\$ (430)	1,087	557	-	100
Band Activity	11,307	19,269	19,777	-	10,799
Track Activity	(10,280)	5,342	8,678	-	(13,616)
Basketball Activity	663	5,959	6,851	250	21
Football Activity	2,001	7,773	6,444	-	3,330
Soccer Activity	(9,924)	1,856	3,133	-	(11,201)
Baseball Activity	(1,685)	1,436	2,819	-	(3,068)
Wrestling Activity	(2,002)	2,167	1,776	14	(1,597)
Volleyball Activity	(1,587)	2,947	2,502	1,150	8
Softball Activity	(268)	3,905	3,518	-	119
Activity Tickets	1,722	7,405	7,044	(1,896)	187
Golf Activity	(1,389)	280	1,283	-	(2,392)
Elementary Art Club	1,128	-	-	(1,128)	-
Baseball Club	5,432	9,130	8,435	-	6,127
High School Art Club	97	-	-	(97)	-
Cross Country Club	576	1,921	1,910	-	587
Boys Basketball Club	2,073	2,163	3,688	-	548
FFA Account	3,671	-	-	-	3,671
Interest	(262)	189	348	465	44
Girls Basketball Club	4,729	9,912	10,285	-	4,356
Library Club	411	-	-	-	411
Football Club	1,180	10,450	10,468	-	1,162
Drill Team	(351)	5,611	3,610	-	1,650
Middle School Pop/Juice	1,494	9,009	8,567	-	1,936
High School Pop/Juice	322	3,671	3,120	-	873
Revolving	(492)	140	70	422	-
Soda	221	-	-	(221)	-
High School Science Club	140	-	108	-	32
Softball Club	4,881	8,775	8,123	36	5,569
Elementary Student Council	2,139	-	-	75	2,214
Middle School Student Council	208	2,160	1,801	-	567
High School Student Council	421	1,993	1,270	-	1,144
High School Boys Track Club	504	5,416	5,134	-	786
FCCLA/FHA Account	50	-	-	200	250
High Vocal Activity	3,290	2,949	2,491	-	3,748
High School Volleyball Club	(66)	1,741	1,668	-	7
Weightlifting Club	601	688	997	-	292
Softball Pitching	36	-	-	(36)	-
High School Wrestling Club	892	9,423	8,506	-	1,809
High School Yearbook	(2,903)	5,245	2,095	-	247
High School Girls Track Club	677	1,627	1,624	-	680
Wrestling Camp	14	-	-	(14)	-

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance Change	Balance End of Year
Basketball Cheerleading	1,769	613	901	-	1,481
Football Cheerleading	375	3,268	3,198	-	445
Wrestling Cheerleading	2	1,586	1,580	-	8
Elementary Field Trip	115	489	604	-	-
Elementary Student Directory	1,498	-	-	(1,498)	-
Middle School Leadership	1,117	1,743	1,713	500	1,647
Peers	158	-	-	(158)	-
Middle School Quest	1,858	-	188	(1,120)	550
SOS Account	216	-	-	-	216
Sweatshirts	719	-	-	-	719
Middle School TAG	17	-	-	(17)	-
Alumni	368	-	225	673	816
Spanish Club	59	511	385	-	185
JH Volleyball Club	501	655	495	-	661
Jump Rope for Heart	100	-	-	-	100
Elementary Playground Acct	48	-	-	(48)	-
Fellowship Athletes	79	-	-	(79)	-
Middle School Wrestling Club	158	-	-	-	158
Middle School Yearbook	892	1,900	1,728	-	1,064
Middle School Activity Center	6,883	150	6,652	-	381
Middle School Vocal Activity	3,202	-	-	-	3,202
Elementary Music	2,655	2,649	930	-	4,374
Home/School Partnership	57	-	-	(57)	-
Elementary PAC	12,890	20,843	14,871	48	18,910
Pott City Spelling Bee	75	-	-	(75)	-
JH Girls Track Club	133	1,384	1,217	-	300
Girard Memorial Library Fund	165	-	-	-	165
Special Ed Project	139	-	-	(139)	-
Band Flag Corp	268	34	31	-	271
JH Football Club	18	-	-	-	18
JH Basketball Club	9	-	-	-	9
JH Boys Track Club	(143)	-	-	143	-
Class of 2008	28	-	1	(27)	-
Class of 2009	408	-	-	(408)	-
Class of 2010	237	-	-	(237)	-
Class of 2011	389	-	-	-	389
Class of 2012	105	-	-	-	105
Class of 2013	1,622	1,760	3,327	-	55
Class of 2014	210	18,405	14,409	-	4,206
Class of 2015	-	2,552	1,542	-	1,010
Class of 2016	-	462	443	-	19
Adopt Instrument Fund	5,019	125	-	-	5,144
Band/Chicago Trip	479	6,090	6,090	-	479
BB/SB Complex	621	-	92	-	529
Girls Soccer Club	1,560	2,494	2,356	-	1,698
Boys Soccer Club	237	1,493	1,258	-	472
District 8 Football	300	900	541	-	659
Golf Club	-	525	505	-	20
National Honor Society	425	230	300	-	355
Donations	-	24,175	18,975	3,279	8,479
Total	\$ 67,281	246,675	233,257	-	80,699

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
 FIDUCIARY FUND - PRIVATE PURPOSE TRUST FUNDS  
 STATEMENT OF FIDUCIARY NET POSITION  
 JUNE 30, 2013

	Private Purpose Trust - Scholarship Fund					Total
	Armstrong Scholarship	Boyer Scholarship	Torneton Scholarship	Wyland Scholarship	Health Committee	
<b>ASSETS</b>						
Cash and pooled investments	\$ 6,194	8,301	502	3,771	3,904	22,672
<b>LIABILITIES</b>	-	-	-	-	-	-
<b>NET POSITION</b>						
Restricted for scholarships	6,194	8,301	502	3,771	-	18,768
Restricted for wellness activities	-	-	-	-	3,904	3,904
<b>TOTAL NET POSITION</b>	<b>\$ 6,194</b>	<b>8,301</b>	<b>502</b>	<b>3,771</b>	<b>3,904</b>	<b>22,672</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
 FIDUCIARY FUND - PRIVATE PURPOSE TRUST FUNDS  
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 YEAR ENDED JUNE 30, 2013

	Private Purpose Trust - Scholarship Fund					Total
	Armstrong Scholarship	Boyer Scholarship	Torneton Scholarship	Wyland Scholarship	Health Committee	
ADDITIONS:						
Local sources:						
Gifts and contributions	\$ -	-	-	-	2,039	2,039
Interest income	26	15	-	26	-	67
TOTAL ADDITIONS	26	15	-	26	2,039	2,106
DEDUCTIONS:						
Instruction:						
Regular:						
Scholarships awarded	100	-	-	-	-	100
Supplies	-	-	-	-	1,019	1,019
TOTAL DEDUCTIONS	100	-	-	-	1,019	1,119
Change in net position	(74)	15	-	26	1,020	987
Net position beginning of year	6,268	8,286	502	3,745	2,884	21,685
Net position end of year	\$ 6,194	8,301	502	3,771	3,904	22,672

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 TEN YEARS

	Modified Accrual Basis									
	Years Ended June 30,									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
REVENUES:										
Local sources:										
Local tax	\$ 4,285,599	4,307,276	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	683,714	693,153	631,429	529,795	582,847	535,398	530,597	496,622	489,707	399,863
Other	404,969	409,356	472,238	342,911	593,388	700,548	617,450	414,695	478,538	334,416
State sources	3,779,770	3,774,489	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	104,092	93,993	324,816	520,064	187,622	120,635	107,984	104,438	86,427	50,790
<b>TOTAL</b>	<b>\$ 9,258,144</b>	<b>9,278,267</b>	<b>9,368,897</b>	<b>8,363,016</b>	<b>8,483,021</b>	<b>8,034,300</b>	<b>7,128,987</b>	<b>6,550,510</b>	<b>6,110,309</b>	<b>5,669,949</b>
EXPENDITURES:										
Current:										
Instruction:										
Regular	\$ 3,650,015	3,347,989	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	684,817	741,655	788,499	679,912	618,625	491,819	578,620	543,956	505,093	543,316
Other	824,858	797,259	826,527	809,326	725,085	690,333	611,006	613,966	614,014	470,998
Support services:										
Student	165,059	164,097	157,903	156,686	150,195	132,163	150,554	152,881	167,985	149,960
Instructional staff	374,339	339,439	271,138	275,727	216,595	278,716	222,390	215,561	221,128	183,763
Administration	971,268	964,859	914,131	897,778	878,294	857,999	798,067	702,332	665,318	554,918
Operation and maintenance of plant	878,104	852,770	876,114	791,686	794,137	679,452	608,972	609,510	650,068	597,250
Transportation	469,602	540,080	473,071	413,388	473,403	428,893	315,745	337,581	347,764	259,036
Non-instructional programs		-	-	-	-	-	-	-	1,207	4,044
Capital outlay	3,605,371	1,439,626	398,986	671,535	3,136,148	4,881,798	1,070,435	69,183	87,497	127,711
Other expenditures:										
Long-term debt:										
Principal	240,000	230,000	220,000	215,000	205,000	90,000	-	-	-	-
Interest and fiscal charges	246,511	190,794	200,094	209,181	217,894	313,935	54,766	-	-	-
AEA flow-through	280,205	280,435	309,671	297,169	263,267	232,064	222,271	206,685	194,509	189,817
<b>TOTAL</b>	<b>\$ 12,390,149</b>	<b>9,889,003</b>	<b>8,747,675</b>	<b>8,715,853</b>	<b>10,913,194</b>	<b>11,895,215</b>	<b>7,157,101</b>	<b>5,986,450</b>	<b>5,842,445</b>	<b>5,436,866</b>

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 the Underwood Community School District:**

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the 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, 2013, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 4, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Underwood Community School District's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Underwood Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Underwood Community School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and 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 described in Part I of the accompanying Schedule of Findings as items I-A-13 to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as item I-B-13 to be a significant deficiency.

### **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 which 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, 2013 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**

Underwood Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Underwood Community School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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 4, 2014  
Newton, Iowa

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2013

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCY:**

I-A-13 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. One individual has control over each of the following areas for the District:

- 1) Cash - initiating cash receipt and disbursement transactions and handling and recording cash.
- 2) Investments - investing, detailed recordkeeping, custody of investments and reconciling earnings.
- 3) Receipts - collecting, recording, depositing, journalizing, posting, and reconciling.
- 4) Disbursements - purchase order processing, check preparation, mailing, and recording.
- 5) Payroll - recording approved pay rates and deductions, recordkeeping, preparation, posting, and distribution.
- 6) Financial reporting - preparing, reconciling, and approving.

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 - The District will continue to review procedures, and implement additional controls where feasible.

Conclusion - Response accepted.

I-B-13 Trust Fund - During our audit we noted the District utilizes a Trust Fund. According to Chapter 9 of the LEA Administrative Manual, "Trust funds are used to account for assets held by a school district in a trustee capacity for others, and therefore cannot be used to support the school district's own programs. These Trust funds will include both those that allow use of only the interest on the investments and those that allow use of both principal and interest. Trust funds shall be established by any school corporation to account for gifts it receives to be used for a particular purpose or to account for money and property received and administered by the district as trustee or custodian. Boards may establish trust funds as necessary. The characteristics of the expenditures from a Trust Fund depend on the nature of the donor's conditions or the responsibilities if the trustee. None of the expenditures will be for the benefit of the district's programs. Sources of revenue include donations of cash, investment instruments, property, and interest on investments held".

Currently, the District accounts for the Health Committee Fund in the Private Purpose Trust Fund. The revenues and expenditures in the Health Committee Fund appear to be for speakers and catered lunches for teachers during in-service days. Revenues and expenditures for these purposes would be better accounted for in the General Fund.

Recommendation - The District should transfer this account to the General Fund to be in compliance with Chapter 9 of the LEA Administrative Manual.

Response - The District will work to correct this issue.

Conclusion - Response accepted.

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

II-A-13 Certified Budget - District disbursements for the year ended June 30, 2013 did not exceed the amounts budgeted.

II-B-13 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-13 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-13 Business Transactions - Business transactions between the District and District officials are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Eva Franco, Elementary Special Education teacher Spouse owns ISC Training	Services	\$1,350
Marsha Slobodnick, Secretary Spouse owns TJ's Woodworking	Services	\$8,010

In accordance with Attorney's General opinion dated November 9, 1976, the transactions listed above do not appear to be a conflict of interest.

II-E-13 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-13 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-13 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.

II-H-13 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

II-I-13 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

- II-J-13 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-13 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.
- II-L-13 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, 2013, the following information includes amounts the District reported for the statewide sales, services, and use tax revenue in the District's CAR including adjustments identified during the fiscal 2013 audit:

Beginning balance		\$ 435,262
Revenues:		
Sales tax revenues	\$ 676,870	
Other local revenues	926	<u>677,796</u>
		1,113,058
Expenditures/transfers out:		
School infrastructure construction	211,368	
Equipment	132,065	
Transfers to other funds		
Debt service fund	<u>449,400</u>	<u>792,833</u>
Ending balance		<u><u>\$ 320,225</u></u>

For the year ended June 30, 2013, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

- II-M-13 Financial Condition - The District had a deficit unrestricted net position in the Enterprise, School Nutrition Fund of \$10,685. The District's Student Activity Fund had five deficit accounts with a total deficit unassigned fund balance of \$31,874. The District also had a deficit unrestricted net position in the governmental activities of \$192,469.

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

Response - The District is working to correct these deficit balances.

Conclusion - Response accepted.

- II-N-13 Student Activity Fund - In accordance with Chapter 298A.8 of the Code of Iowa and Iowa Administrative Code 281-12.6(1), the purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for students.

**Questionable Accounts:** The Sweatshirts, Middle School Activity Center, Girard Memorial Library Fund, Baseball/Softball Complex, Donations and Middle School/High School Pop accounts do not appear to be extra curricular or cocurricular in nature.

Recommendation - The District should review the propriety of revenues and expenditures that are recorded in these accounts. It would appear that these accounts are administratively maintained or instructional in nature, rather than maintained by a club or organization. The District should review these accounts and reclassify/transfer to the appropriate accounts in the Student Activity Fund to be in compliance with Chapter 298A.8 of the Code of Iowa and Iowa Administrative Code 281-12.6(1).

Response - The District has discussed the questioned accounts with the auditors to determine where the above mentioned accounts would be most appropriate. The District will make the necessary reclassifications/transfers based on the auditors' recommendations to be in compliance with Chapter 298A.8 of the Code of Iowa and Iowa Administrative Code 281-12.6(1).

Conclusion - Response accepted.