UNDERWOOD COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2014

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Underwood Community School District

Officials

Name	Title	Term Expires
	Board of Education (Before September 2013 Election)	
Bill Bracker	President	2015
Keith Peterson	Vice President	2013
John Rasmussen	Board Member	2013
Becky Constant	Board Member	2015
Neil Darrington	Board Member	2015
	(After September 2013 Election)	
John Rasmussen	President	2017
Bill Bracker	Vice President	2015
Keith Peterson	Board Member	2017
Becky Constant	Board Member	2015
Neil Darrington	Board Member	2015
	School Officials	
Edward Hawks	Superintendent	2014
Andrea Raes	District Secretary and Treasurer	2014
Ahlers & Cooney P.C.	Attorney	2014

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, 2014, 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, 2014, 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.

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 15 and 42 through 44 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, 2013 (which are not presented herein) and expressed unmodified 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 February 20, 2015 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 PC

NOLTE, CORNMAN & JOHNSON, P.C.

February 20, 2015
Newton, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

Underwood Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from $7,631,055 in fiscal 2013 to $7,679,179 in fiscal 2014, while General Fund expenditures increased from $7,715,727 in fiscal 2013 to $7,846,486 in fiscal 2014. The increase in revenues was not enough to offset the increase in expenditures causing the District's General Fund balance to decrease from $837,340 at June 30, 2013 to $670,033 at June 30, 2014, a 19.98% decrease from the prior year.

- The increase in General Fund revenues was attributable to an increase in local sources of revenue as compared to fiscal year 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-1
Underwood Community School District Annual Financial Report

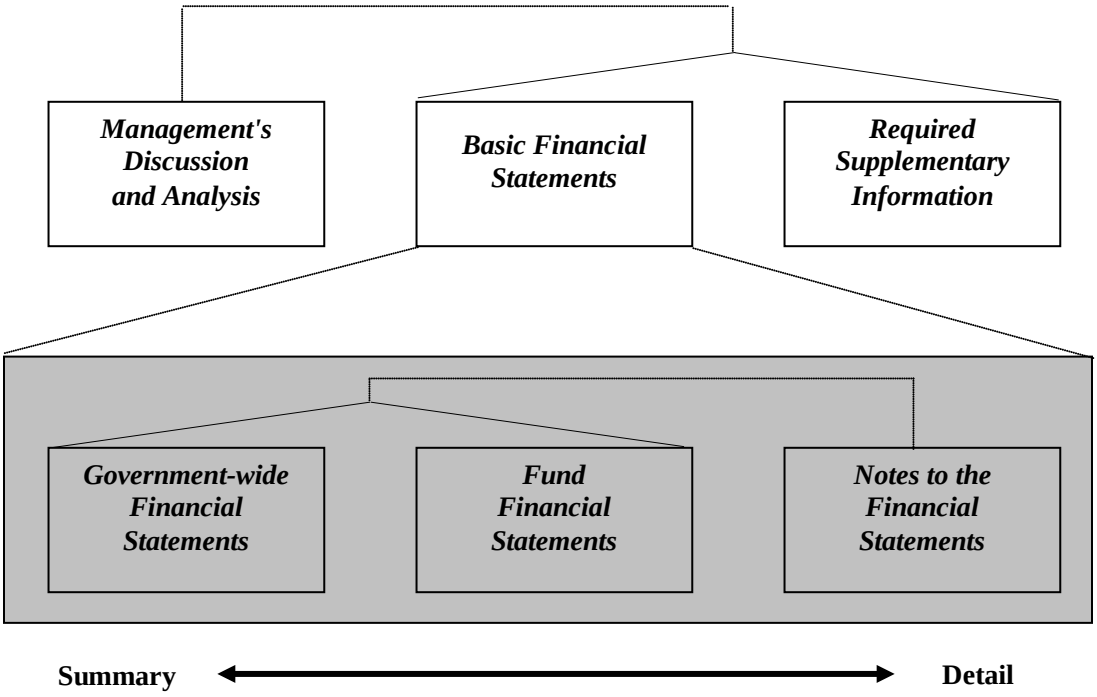

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2
Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	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	• Statement of net position • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances	• Statement of net position • Statement of revenues, expenses and changes in fund net position • Statement of cash flows	• Statement of fiduciary net position • Statement of changes in fiduciary net position
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, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. 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 is one way to measure the District's financial health or financial 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 Net Position, Statement of Revenues, Expenses and Changes in Fund 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 and wellness activities 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 governmental fund financial statements follow the governmental fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net position at June 30, 2014 compared to June 30, 2013.

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,
	2014	2013	2014	2013	2014	2013	2013-14
Current and other assets	$ 6,514,311	8,837,078	121,892	80,865	6,636,203	8,917,943	-25.59%
Capital assets	14,686,881	13,068,262	58,827	66,159	14,745,708	13,134,421	12.27%
Total assets	21,201,192	21,905,340	180,719	147,024	21,381,911	22,052,364	-3.04%
Long-term liabilities	10,872,485	11,362,780	24,110	22,220	10,896,595	11,385,000	-4.29%
Other liabilities	900,171	1,172,173	35,148	33,711	935,319	1,205,884	-22.44%
Total liabilities	11,772,656	12,534,953	59,258	55,931	11,831,914	12,590,884	-6.03%
Deferred inflows of resources	3,592,050	3,585,883	-	-	3,592,050	3,585,883	0.17%
Net position:							
Net investment in capital assets	4,811,881	4,619,285	58,827	66,159	4,870,708	4,685,444	3.95%
Restricted	1,437,375	1,357,688	-	-	1,437,375	1,357,688	5.87%
Unrestricted	(412,770)	(192,469)	62,634	24,934	(350,136)	(167,535)	108.99%
Total net position	$ 5,836,486	5,784,504	121,461	91,093	5,957,947	5,875,597	1.40%

The District's combined net position increased by $82,350 or 1.40% 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 $79,687 or 5.87% from the prior year. The increase in restricted net position is due in part to the increase in fund balance of 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 - increased $182,601 or 108.99%. 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, 2014 compared to the year ended June 30, 2013.

Figure A-4 Changes in Net Position	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
Revenues:							
Program revenues:							
Charges for services	$ 1,107,388	1,043,707	341,382	317,510	1,448,770	1,361,217	6.43%
Operating grants, contributions and restricted interest	479,823	495,338	116,566	119,075	596,389	614,413	-2.93%
General revenues:							
Property tax	3,584,825	3,608,729	-	-	3,584,825	3,608,729	-0.66%
Statewide sales, services and use tax	628,248	676,870	-	-	628,248	676,870	0.00%
Unrestricted state grants	3,398,900	3,388,524	-	-	3,398,900	3,388,524	0.31%
Unrestricted investment earnings	3,114	11,747	-	-	3,114	11,747	-73.49%
Other	18,695	33,229	636	1,160	19,331	34,389	-43.79%
Total revenues	9,220,993	9,258,144	458,584	437,745	9,679,577	9,695,889	-0.17%
Program expenses:							
Governmental activities:							
Instruction	5,203,975	5,233,800	-	-	5,203,975	5,233,800	-0.57%
Support services	2,975,841	3,198,321	-	-	2,975,841	3,198,321	-6.96%
Non-instructional programs	-	-	428,216	444,054	428,216	444,054	-3.57%
Other expenses	989,195	899,341	-	-	989,195	899,341	9.99%
Total expenses	9,169,011	9,331,462	428,216	444,054	9,597,227	9,775,516	-1.82%
Excess(Deficiency) of revenues over(under) expenses	51,982	(73,318)	30,368	(6,309)	82,350	(79,627)	-203.42%
Transfers	-	(16,899)	-	16,899	-	-	0.00%
Change in net position	51,982	(90,217)	30,368	10,590	82,350	(79,627)	-203.42%
Net position beginning of year	5,784,504	5,874,721	91,093	80,503	5,875,597	5,955,224	-1.34%
Net position end of year	$ 5,836,486	5,784,504	121,461	91,093	5,957,947	5,875,597	1.40%

In fiscal 2014, property tax, statewide sales, services and use tax and unrestricted state grants account for 82.55% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.86% of the revenue from business type activities.

The District's total revenues were approximately $9.68 million, of which approximately $9.22 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 0.17% in revenues and a decrease of 1.36% in expenses. The decrease in revenues can be attributed to the decrease in property tax revenues received by the District as compared to the previous year. The decrease in expenses was related to the decreases in expenditures in the instruction and support services functions.

Governmental Activities

Revenues for governmental activities were $9,220,993 and expenses were $9,169,011.

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, 2014 compared to the year ended June 30, 2013.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2014	2013	Change 2013-14	2014	2013	Change 2013-14
Instruction	$ 5,203,975	5,233,800	-0.57%	3,911,493	3,985,520	-1.86%
Support services	2,975,841	3,198,321	-6.96%	2,968,476	3,187,761	-6.88%
Other expenses	989,195	899,341	9.99%	701,831	619,136	13.36%
Totals	$ 9,169,011	9,331,462	-1.74%	7,581,800	7,792,417	-2.70%

For the year ended June 30, 2014:

- The cost financed by users of the District's programs was $1,107,388.
- Federal and state governments subsidized certain programs with grants and contributions totaling $479,823.
- The net cost of governmental activities was financed with $3,584,825 in property tax, $628,248 in statewide sales, services and use tax, $3,398,900 in unrestricted state grants, $3,114 in interest income and $18,695 in other general revenues.

Business Type Activities

Revenues of the District's business type activities were $458,584 and expenses were $428,216. 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 balances of $2,038,378; a decrease from last year's ending fund balances of $4,141,149. The primary reason for the decrease in combined fund balances is due to spent revenue bond proceeds from the July 1, 2012 issue.

Governmental Fund Highlights

- The District's General Fund balance decreased from $837,340 on June 30, 2013 to $670,033 on June 30, 2014. The District's General Fund financial position is the product of many factors. The reduction in the amount of revenues received from state and federal 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 decreased from $2,317,445 at June 30, 2013 to $340,706 at June 30, 2014. The main reason for the decrease in Capital Projects accounts balance is due to the completion of construction projects for the high school addition.

- The Debt Service Fund balance increased from $840,292 on June 30, 2013 to $844,445 on June 30, 2014.

Proprietary Fund Highlights

The School Nutrition Fund net position increased from $31,823 at June 30, 2013 to $67,977 at June 30, 2014, representing an increase of 113.61%. An increase in revenues coupled with a decrease in expenditures as compared to the previous year ensured the increase in ending fund balance.

The Latch Key Fund net position decreased from $59,270 at June 30, 2013 to $53,484 at June 30, 2014, representing a decrease of 9.76%. A decrease in revenues coupled with an increase in expenditures as compared to the previous year ensured the decrease in fund balance at year end.

BUDGETARY HIGHLIGHTS

The District's revenues were $115,959 more than budgeted revenues, a variance of 1.21%. The most significant variance resulted from the District receiving more from state 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, 2014, the District had invested $14,745,708, 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 12.27% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was $580,542.

The original cost of the District's capital assets was $20,245,604. Governmental funds account for $20,134,190 with the remainder of $111,414 in the Proprietary, School Nutrition and Latch Key Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. Construction in progress totaled $3,414,812 at June 30, 2013, compared to $42,684 reported at June 30, 2014. This decrease in construction in progress is due to the completion of the track and high school addition projects from the previous year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
Land	$ 97,590	97,590	-	-	97,590	97,590	0.00%
Construction in progress	42,684	3,414,812	-	-	42,684	3,414,812	-98.75%
Buildings	13,180,028	8,332,294	-	-	13,180,028	8,332,294	58.18%
Land improvements	836,292	886,586	-	-	836,292	886,586	-5.67%
Furniture and equipment	530,287	336,980	58,827	66,159	589,114	403,139	46.13%
Total	$ 14,686,881	13,068,262	58,827	66,159	14,745,708	13,134,421	12.27%

Long-Term Debt

At June 30, 2014, the District had $10,896,595 in general and other long-term debt outstanding. This represents a decrease of 4.29% 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 $3,995,000 at June 30, 2014.

The District had total revenue bonds payable of $5,880,000 at June 30, 2014.

The District had total outstanding Net OPEB liability totaling $1,021,595 at June 30, 2014.

Figure A-7
Outstanding Long-Term Obligations

	Governmental Activities June 30,		Business type Activities June 30,		Total School District June 30,		Total Change June 30,
	2014	2013	2014	2013	2014	2013	Change
General obligation bonds	$ 3,995,000	4,245,000	-	-	3,995,000	4,245,000	-5.89%
Revenue bonds	5,880,000	6,200,000	-	-	5,880,000	6,200,000	-5.16%
Net OPEB obligation	997,485	917,780	24,110	22,220	1,021,595	940,000	8.68%
Total	$ 10,872,485	11,362,780	24,110	22,220	10,896,595	11,385,000	-4.29%

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.

UNDERWOOD

COMMUNITY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

Exhibit A

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and cash equivalents	$ 2,597,777	112,103	2,709,880
Receivables:			
Property tax:			
Delinquent	30,463	-	30,463
Succeeding year	3,592,050	-	3,592,050
Accounts	3,041	-	3,041
Due from other governments	290,980	-	290,980
Inventories	-	9,789	9,789
Capital assets, net of accumulated depreciation	14,686,881	58,827	14,745,708
TOTAL ASSETS	21,201,192	180,719	21,381,911
LIABILITIES			
Accounts payable	78,055	-	78,055
Salaries and benefits payable	732,253	32,229	764,482
Accrued interest payable	89,863	-	89,863
Unearned revenues	-	2,919	2,919
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	260,000	-	260,000
Revenue bonds payable	325,000	-	325,000
Portion due after one year:			
General obligation bonds payable	3,735,000	-	3,735,000
Revenue bonds payable	5,555,000	-	5,555,000
Net OPEB liability	997,485	24,110	1,021,595
TOTAL LIABILITIES	11,772,656	59,258	11,831,914
DEFERRED INFLOWS OF RESOURCES			
Unavailable property tax revenue	3,592,050	-	3,592,050
NET POSITION			
Net investment in capital assets	4,811,881	58,827	4,870,708
Restricted for:			
Categorical funding	125,942	-	125,942
School infrastructure	339,912	-	339,912
Management levy purposes	114,111	-	114,111
Physical plant and equipment levy	794	-	794
Student activities	102,034	-	102,034
Debt service	754,582	-	754,582
Unrestricted	(412,770)	62,634	(350,136)
TOTAL NET POSITION	$ 5,836,486	121,461	5,957,947

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit B

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

		Program Revenues		Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular	$ 3,687,939	684,614	39,604	(2,963,721)	-	(2,963,721)
Special	758,100	134,068	33,060	(590,972)	-	(590,972)
Other	757,936	287,875	113,261	(356,800)	-	(356,800)
	5,203,975	1,106,557	185,925	(3,911,493)	-	(3,911,493)
Support services:						
Student	180,842	-	-	(180,842)	-	(180,842)
Instructional staff	356,012	-	-	(356,012)	-	(356,012)
Administration	1,028,221	-	-	(1,028,221)	-	(1,028,221)
Operation and maintenance of plant	900,378	-	-	(900,378)	-	(900,378)
Transportation	510,388	831	6,534	(503,023)	-	(503,023)
	2,975,841	831	6,534	(2,968,476)	-	(2,968,476)
Long-term debt interest	296,188	-	-	(296,188)	-	(296,188)
Other expenses:						
AEA flowthrough	287,364	-	287,364	-	-	-
Depreciation(unallocated)*	405,643	-	-	(405,643)	-	(405,643)
	989,195	-	287,364	(701,831)	-	(701,831)
Total governmental activities	9,169,011	1,107,388	479,823	(7,581,800)	-	(7,581,800)
Non-instructional programs:						
Food service operations	361,752	280,704	116,566	-	35,518	35,518
Latch Key	66,464	60,678	-	-	(5,786)	(5,786)
Total business type activities	428,216	341,382	116,566	-	29,732	29,732
Total	$ 9,597,227	1,448,770	596,389	(7,581,800)	29,732	(7,552,068)
General Revenues:						
Property tax levied for:						
General purposes				$ 3,086,916	-	3,086,916
Debt service				420,579	-	420,579
Capital outlay				77,330	-	77,330
Statewide sales, services and use tax				628,248	-	628,248
Unrestricted state grants				3,398,900	-	3,398,900
Unrestricted investment earnings				3,114	-	3,114
Other general revenues				18,695	636	19,331
Total general revenues				7,633,782	636	7,634,418
Change in net position				51,982	30,368	82,350
Net position beginning of year				5,784,504	91,093	5,875,597
Net position end of year				$ 5,836,486	121,461	5,957,947

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

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit C

UNDERWOOD COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	General	Capital Projects	Debt Service	Nonmajor	Total
ASSETS					
Cash and pooled investments	$ 1,254,094	247,643	840,887	181,578	2,524,202
Receivables:					
Property tax:					
Delinquent	24,635	654	3,558	1,616	30,463
Succeeding year	2,900,395	80,936	420,720	189,999	3,592,050
Accounts	3,041	-	-	-	3,041
Due from other governments	191,753	99,227	-	-	290,980
TOTAL ASSETS	$ 4,373,918	428,460	1,265,165	373,193	6,440,736
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 71,237	6,818	-	-	78,055
Salaries and benefits payable	732,253	-	-	-	732,253
Total liabilities	803,490	6,818	-	-	810,308
Deferred inflows of resources:					
Unavailable revenues:					
Succeeding year property tax	2,900,395	80,936	420,720	189,999	3,592,050
Fund balances:					
Restricted for:					
Categorical funding	125,942	-	-	-	125,942
School infrastructure	-	339,912	-	-	339,912
Management levy purposes	-	-	-	114,111	114,111
Physical plant and equipment	-	794	-	-	794
Student activities	-	-	-	102,034	102,034
Debt service	-	-	844,445	-	844,445
Unassigned:					
General	544,091	-	-	-	544,091
Student activities	-	-	-	(32,951)	(32,951)
Total fund balances	670,033	340,706	844,445	183,194	2,038,378
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 4,373,918	428,460	1,265,165	373,193	6,440,736

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit D

UNDERWOOD COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014

Total fund balances of governmental funds(page 20)	$	2,038,378
Amounts reported for governmental activities in the Statement of Net Position is different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		14,686,881
Blending of the Internal Service Fund to be reflected on an entity-wide basis.		73,575
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.		(89,863)
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.		(10,872,485)
Net position of governmental activities(page 18)	$	5,836,486

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit E

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	General	Capital Projects	Debt Service	Nonmajor	Total
REVENUES:					
Local sources:					
Local tax	$ 2,896,981	77,330	420,579	189,935	3,584,825
Tuition	772,587	-	-	-	772,587
Other	101,675	783	131	270,455	373,044
State sources	3,773,276	628,282	183	83	4,401,824
Federal sources	88,713	-	-	-	88,713
TOTAL REVENUES	7,633,232	706,395	420,893	460,473	9,220,993
EXPENDITURES:					
Current:					
Instruction:					
Regular	3,538,364	-	-	-	3,538,364
Special	725,837	-	-	-	725,837
Other	635,798	-	-	273,788	909,586
	4,899,999	-	-	273,788	5,173,787
Support services:					
Student	173,776	-	-	-	173,776
Instructional staff	341,893	-	-	-	341,893
Administration	982,545	-	-	-	982,545
Operation and maintenance of plant	778,088	-	-	133,646	911,734
Transportation	382,821	100,811	-	15,917	499,549
	2,659,123	100,811	-	149,563	2,909,497
Capital outlay	-	2,129,609	-	-	2,129,609
Long-term debt:					
Principal	-	-	570,000	-	570,000
Interest and fiscal charges	-	-	299,454	-	299,454
	-	-	869,454	-	869,454
Other expenditures:					
AEA flowthrough	287,364	-	-	-	287,364
TOTAL EXPENDITURES	7,846,486	2,230,420	869,454	423,351	11,369,711
Excess(Deficiency) of revenues over(under) expenditures	(213,254)	(1,524,025)	(448,561)	37,122	(2,148,718)
OTHER FINANCING SOURCES(USES):					
Insurance proceeds	45,162	-	-	-	45,162
Sale of equipment	785	-	-	-	785
Transfer in	-	-	452,714	-	452,714
Transfer out	-	(452,714)	-	-	(452,714)
TOTAL OTHER FINANCING SOURCES(USES)	45,947	(452,714)	452,714	-	45,947
Change in fund balances	(167,307)	(1,976,739)	4,153	37,122	(2,102,771)
Fund balances beginning of year	837,340	2,317,445	840,292	146,072	4,141,149
Fund balances end of year	$ 670,033	340,706	844,445	183,194	2,038,378

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit F

UNDERWOOD COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

Change in fund balances - total governmental funds(page 22)		$ (2,102,771)
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, depreciation expense and loss on asset disposal in the year are as follows:		
Capital outlay	$ 2,969,865	
Depreciation expense	(573,210)	
Loss on asset disposal	(778,036)	1,618,619
Net change in the Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis.		42,573
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 repayments are as follows:		570,000
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.		3,266
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:		
Other postemployment benefits		(79,705)
Change in net position of governmental activities(page 19)		$ 51,982

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit G

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	Business Type Activities: Enterprise Funds			Governmental Activities: Internal Service Fund
	School Nutrition	Latch Key	Total	
ASSETS				
Current assets:				
Cash and pooled investments	$ 61,789	50,314	112,103	73,575
Inventories	9,789	-	9,789	-
Total current assets	71,578	50,314	121,892	73,575
Noncurrent assets:				
Capital assets,net of accumulated depreciation	37,351	21,476	58,827	-
Total noncurrent assets	37,351	21,476	58,827	-
TOTAL ASSETS	108,929	71,790	180,719	73,575
LIABILITIES				
Current liabilities:				
Salaries and benefits payable	25,978	6,251	32,229	-
Unearned revenue	2,919	-	2,919	-
Total current liabilities	28,897	6,251	35,148	-
Noncurrent liabilities:				
Net OPEB liability	12,055	12,055	24,110	-
TOTAL LIABILITIES	40,952	18,306	59,258	-
NET POSITION				
Net investment in capital assets	37,351	21,476	58,827	-
Unrestricted	30,626	32,008	62,634	73,575
TOTAL NET POSITION	$ 67,977	53,484	121,461	73,575

SEE NOTES TO FINANCIAL STATEMENTS

Exhibit H

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

	Business Type Activities: Enterprise Funds			Governmental Activities: Internal Service Fund
	School Nutrition	Latch Key	Total	
Operating revenues:				
Local sources:				
Charges for services	$ 280,704	60,678	341,382	-
Miscellaneous	636	-	636	789,455
Total operating revenues	281,340	60,678	342,018	789,455
Non-instructional programs:				
Food service operations:				
Salaries	129,316	-	129,316	-
Benefits	38,990	-	38,990	-
Services	1,645	-	1,645	-
Supplies	186,644	-	186,644	-
Depreciation	5,157	-	5,157	-
	361,752	-	361,752	-
Other enterprise operations:				
Salaries	-	45,998	45,998	-
Benefits	-	14,609	14,609	746,882
Supplies	-	3,682	3,682	-
Depreciation	-	2,175	2,175	-
	-	66,464	66,464	746,882
Total non-instruction programs	361,752	66,464	428,216	746,882
Operating income(loss)	(80,412)	(5,786)	(86,198)	42,573
Non-operating revenues:				
State sources	3,241	-	3,241	-
Federal sources	113,325	-	113,325	-
Total non-operating revenues	116,566	-	116,566	-
Change in net position	36,154	(5,786)	30,368	42,573
Net position beginning of year	31,823	59,270	91,093	31,002
Net position end of year	$ 67,977	53,484	121,461	73,575

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit I

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

	Business Type Activities: Enterprise Funds			Governmental Activities: Internal Service Fund
	School Nutrition	Latch Key	Total	
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	$ 280,361	-	280,361	-
Cash received from Latch Key operations	-	60,678	60,678	-
Cash received from miscellaneous operating activities	636	-	636	789,455
Cash payments to employees for services	(165,776)	(59,467)	(225,243)	-
Cash payments to suppliers for goods or services	(163,352)	(3,682)	(167,034)	(746,882)
Net cash provided by(used in) operating activities	(48,131)	(2,471)	(50,602)	42,573
Cash flows from non-capital financing activities:				
State grants received	3,241	-	3,241	-
Federal grants received	84,159	-	84,159	-
Net cash provided by non-capital financing activities	87,400	-	87,400	-
Net increase(decrease) in cash and cash equivalents	39,269	(2,471)	36,798	42,573
Cash and cash equivalents at beginning of year	22,520	52,785	75,305	31,002
Cash and cash equivalents at end of year	$ 61,789	50,314	112,103	73,575
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:				
Operating income(loss)	$ (80,412)	(5,786)	(86,198)	42,573
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:				
Commodities consumed	29,166	-	29,166	-
Depreciation	5,157	2,175	7,332	-
Increase in salaries and benefits payable	1,585	195	1,780	-
Increase in inventories	(4,229)	-	(4,229)	-
Decrease in unearned revenue	(343)	-	(343)	-
Increase in other postemployment benefits	945	945	1,890	-
Net cash provided by(used in) operating activities	$ (48,131)	(2,471)	(50,602)	42,573

Non-cash investing, capital and related financing activities:

During the year ended June 30, 2014, the District received $29,166 of federal commodities.

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit J

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2014

	Private Purpose Trust
	Scholarship
ASSETS	
Cash and pooled investments	$ 23,508
LIABILITIES	-
NET POSITION	
Restricted for scholarships	18,710
Restricted for wellness activities	4,798
TOTAL NET POSITION	$ 23,508

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit K

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2014

	Private Purpose Trust Scholarship
ADDITIONS:	
Local sources:	
Gifts and contributions	$ 942
Interest income	42
TOTAL ADDITIONS	984
DEDUCTIONS:	
Instruction:	
Regular:	
Scholarships awarded	100
Supplies	48
TOTAL DEDUCTIONS	148
Change in net position	836
Net position beginning of year	22,672
Net position end of year	$ 23,508

SEE NOTES TO FINANCIAL STATEMENTS.

(1) Summary of Significant Accounting Policies

The Underwood Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic 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, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

Net investment in capital assets 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. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position is often subject to constraints 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, Deferred Inflows of Resources 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, 2012 assessed property valuations; is for the tax accrual period July 1, 2013 through June 30, 2014 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2013.

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 Inflows of Resources - 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 inflows of resources 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 inflows of resources consist of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred inflows of resources in 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.

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, 2014 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 $80,068 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

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	$ 452,714

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.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2014 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 97,590	-	-	97,590
Construction in progress	3,414,812	1,830,955	5,203,083	42,684
Total capital assets not being depreciated	3,512,402	1,830,955	5,203,083	140,274
Capital assets being depreciated:				
Buildings	12,147,018	5,203,083	775,433	16,574,668
Land improvements	640,953	775,433	-	1,416,386
Machinery and equipment	2,062,423	363,477	423,038	2,002,862
Total capital assets being depreciated	14,850,394	6,341,993	1,198,471	19,993,916
Less accumulated depreciation for:				
Buildings	3,039,291	355,349	-	3,394,640
Land improvements	529,800	50,294	-	580,094
Machinery and equipment	1,725,443	167,567	420,435	1,472,575
Total accumulated depreciation	5,294,534	573,210	420,435	5,447,309
Total capital assets being depreciated, net	9,555,860	5,768,783	778,036	14,546,607
Governmental activities capital assets, net	$ 13,068,262	7,599,738	5,981,119	14,686,881
Business type activities:				
Furniture and equipment	$ 111,414	-	-	111,414
Less accumulated depreciation	45,255	7,332	-	52,587
Business type activities capital assets, net	$ 66,159	(7,332)	-	58,827

Depreciation expense was charged by the District as follows:

Instruction:	
Regular	$ 11,701
Other	54,067
Support services:	
Administration	2,768
Operation and maintenance of plant	5,876
Transportation	93,155
	167,567
Unallocated depreciation	405,643
Total governmental activities depreciation expense	$ 573,210
Business type activities:	
Food services	$ 5,157
Latch key	2,175
	$ 7,332

(5) Long-Term Liabilities

A summary of changes in long-term debt for the year ended June 30, 2014 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activites:					
General obligation bonds	$ 4,245,000	-	250,000	3,995,000	260,000
Revenue bonds	6,200,000	-	320,000	5,880,000	325,000
Net OPEB liability	917,780	79,705	-	997,485	-
Total	$ 11,362,780	79,705	570,000	10,872,485	585,000
Business type activities:					
Net OPEB liability	$ 22,220	1,890	-	24,110	-

General Obligation Bonds Payable

Details of the District's June 30, 2014 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May 1, 2003			
	Interest Rates	Principal	Interest	Total
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	4.00	310,000	115,719	425,719
2020-2024	4.00	1,755,000	381,794	2,136,794
2025-2026	4.00-4.13	815,000	50,237	865,237
Total		$ 3,995,000	1,124,425	5,119,425

Revenue Bonds Payable

Details of the District's June 30, 2014 revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 1, 2012			
	Interest Rates	Principal	Interest	Total
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	1.40	340,000	110,085	450,085
2020-2024	1.65-2.40	1,785,000	453,900	2,238,900
2025-2029	2.50-3.10	2,005,000	220,775	2,225,775
2030	3.20	435,000	6,960	441,960
Total		$ 5,880,000	1,270,400	7,150,400

` 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 72% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the bonds is $7,150,400. For the current year, $320,000 in principal and $127,885 of interest was paid on the bonds and the total statewide sales, services and use tax revenues were $628,248.

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) Monthly transfers will be made from the District's Capital Projects: Statewide Sales, Services and Use Tax Fund to a revenue account held by the bonding agent in the District's name.

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 5.95% of their annual covered salary and the District is required to contribute 8.93% of annual covered salary. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were $361,614, $358,618, and $334,630, 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, 2014, 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		42,300
Adjustment to annual required contribution		(35,705)
Annual OPEB cost		154,595
Contributions made		(73,000)
Increase in net OPEB obligation		81,595
Net OPEB obligation beginning of year		940,000
Net OPEB obligation end of year	$	1,021,595

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, 2014.

For the year ended June 30, 2014, the District contributed $73,000 to the medical plan. Plan members eligible for benefits contributed $67,000, or 47.86% 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, 2014 are summarized as follows:

Year Ended June 30,		Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation
2012	$	371,782	20.44%	$	863,561
2013		154,439	50.51%		940,000
2014		154,595	47.22%		1,021,595

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, 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 $4,010,343 and the ratio of the UAAL to covered payroll was 32.17%. As of June 30, 2014, 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 9.5% for the year ended June 30, 2014, 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 $287,364 for the year ended June 30, 2014 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, 2014 is comprised of the following programs:

Program	Amount
Dropout and Dropout Prevention	$ 30,976
Four-Year Old Preschool State Aid	60,998
Professional Development for Model Core Curriculum	9,663
Professional Development	940
Successful Progression for Early Readers	17,620
Teacher Leadership Grants	5,745
Total	$ 125,942

(11) Reconciliation of Governmental Fund Balances to Net Position

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

	Net Investment in Capital Assets	Debt Service	Unassigned/ Unrestricted
Fund balance (Exhibit C)	$ -	844,445	544,091
Capital assets, net of accumulated depreciation	14,686,881	-	-
General obligation bond capitalized indebtedness	(3,995,000)	-	-
Revenue bond capitalized indebtedness	(5,880,000)	-	-
Accrued interest payable	-	(89,863)	-
Internal service fund	-	-	73,575
Net OPEB liability	-	-	(997,485)
Unassigned for student activities	-	-	(32,951)
Net position (Exhibit A)	$ 4,811,881	754,582	(412,770)

(12) Deficit Fund Balance/Net Position

The District's Student Activity Fund had three deficit accounts with a total deficit unassigned fund balance of $32,951. The District had a deficit unrestricted net position in the governmental activities of $412,770.

(13) Construction Commitment

As of June 30, 2014, costs of $42,684 had been incurred for costs associated with resurfacing of the high school parking lot. When the project is completed, the total cost of the project will be added to the District's capital assets listing.

(14) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statements No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosure and required supplementary information. In addition, the Statement of Net position is expected to include a significant liability for the government's proportionate share of the employees' pension plan.

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, 2014

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts Original	Budgeted Amounts Final	Final to Actual Variance
Revenues:						
Local sources	$ 4,730,456	342,018	5,072,474	5,616,902	5,616,902	(544,428)
State sources	4,401,824	3,241	4,405,065	3,745,996	3,745,996	659,069
Federal sources	88,713	113,325	202,038	200,720	200,720	1,318
Total revenues	9,220,993	458,584	9,679,577	9,563,618	9,563,618	115,959
Expenditures/Expenses:						
Instruction	5,173,787	-	5,173,787	5,420,000	5,420,000	246,213
Support services	2,909,497	-	2,909,497	3,037,000	3,037,000	127,503
Non-instructional programs	-	428,216	428,216	455,000	455,000	26,784
Other expenditures	3,286,427	-	3,286,427	4,451,152	4,451,152	1,164,725
Total expenditures/expenses	11,369,711	428,216	11,797,927	13,363,152	13,363,152	1,565,225
Excess(Deficiency) of revenues over(under) expenditures/expenses	(2,148,718)	30,368	(2,118,350)	(3,799,534)	(3,799,534)	(1,681,184)
Other financing sources, net	45,947	-	45,947	-	-	(45,947)
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	(2,102,771)	30,368	(2,072,403)	(3,799,534)	(3,799,534)	(1,727,131)
Balances beginning of year	4,141,149	91,093	4,232,242	3,914,096	3,914,096	318,146
Balances end of year	$ 2,038,378	121,461	2,159,839	114,562	114,562	2,045,277

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2014

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

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

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

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009		$ 3,130,000	3,130,000	0.00%	$ 3,878,551	80.70%
2011	July 1, 2009	-	3,130,000	3,130,000	0.00%	3,636,718	86.07%
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%
2014	July 1, 2012	-	1,290,000	1,290,000	0.00%	4,010,343	32.17%

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

Schedule 1

UNDERWOOD COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

	Special Revenue		
	Manage-ment Levy	Student Activity	Total
ASSETS			
Cash and pooled investments	$ 112,495	69,083	181,578
Receivables:			
Property tax:			
Delinquent	1,616	-	1,616
Succeeding year	189,999	-	189,999
TOTAL ASSETS	$ 304,110	69,083	373,193
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities	$ -	-	-
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	189,999	-	189,999
Fund balances:			
Restricted for:			
Management levy purposes	114,111	-	114,111
Student activities	-	102,034	102,034
Unassigned	-	(32,951)	(32,951)
Total fund balances	114,111	69,083	183,194
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 304,110	69,083	373,193

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 2

UNDERWOOD COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	Special Revenue		
	Management Levy	Student Activity	Total
REVENUES:			
Local sources:			
Local tax	$ 189,935	-	189,935
Other	8,283	262,172	270,455
State sources	83	-	83
TOTAL REVENUES	198,301	262,172	460,473
EXPENDITURES:			
Current:			
Instruction:			
Other	-	273,788	273,788
Support services:			
Operation and maintenance of plant	133,646	-	133,646
Transportation	15,917	-	15,917
TOTAL EXPENDITURES	149,563	273,788	423,351
Change in fund balances	48,738	(11,616)	37,122
Fund balances beginning of year	65,373	80,699	146,072
Fund balances end of year	$ 114,111	69,083	183,194

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 3

UNDERWOOD COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
CAPITAL PROJECT ACCOUNTS
JUNE 30, 2014

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
ASSETS			
Cash and pooled investments	$ 247,503	140	247,643
Receivables:			
Property tax:			
Delinquent	-	654	654
Succeeding year	-	80,936	80,936
Due from other governments	99,227	-	99,227
TOTAL ASSETS	$ 346,730	81,730	428,460
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 6,818	-	6,818
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	-	80,936	80,936
Fund balances:			
Restricted for:			
School infrastructure	339,912	-	339,912
Physical plant and equipment	-	794	794
Total fund balances	339,912	794	340,706
TOTAL LIABILITIES, DEFERRED INLFOWS OF RESOURCES AND FUND BALANCES	$ 346,730	81,730	428,460

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 4

UNDERWOOD COMMUNITY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
CAPITAL PROJECT ACCOUNTS
YEAR ENDED JUNE 30, 2014

	Capital Projects			
	Statewide Sales, Services and Use Tax	Revenue Bond Construction	Physical Plant and Equipment Levy	Total
REVENUES:				
Local sources:				
Local tax	$ -	-	77,330	77,330
Other	508	275	-	783
State sources	628,248	-	34	628,282
TOTAL REVENUES	628,756	275	77,364	706,395
EXPENDITURES:				
Current:				
Support services:				
Transportation	78,611	-	22,200	100,811
Capital outlay	77,744	1,996,298	55,567	2,129,609
TOTAL EXPENDITURES	156,355	1,996,298	77,767	2,230,420
Excess(Deficiency) of revenues over(under) expenditures	472,401	(1,996,023)	(403)	(1,524,025)
OTHER FINANCING USES:				
Transfer out	(452,714)	-	-	(452,714)
Change in fund balances	19,687	(1,996,023)	(403)	(1,976,739)
Fund balances beginning of year	320,225	1,996,023	1,197	2,317,445
Fund balances end of year	$ 339,912	-	794	340,706

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2014

Account	Balance Beginning of Year	Revenues	Expendi-tures	Intra-fund Transfers	Balance End of Year
Drama/Speech	$ 100	995	501	-	594
Band Activity	10,799	18,974	17,777	-	11,996
Track Activity	(13,616)	7,226	11,953	-	(18,343)
Basketball Activity	21	8,041	8,058	-	4
Football Activity	3,330	6,915	6,116	-	4,129
Soccer Activity	(11,201)	2,063	3,020	-	(12,158)
Baseball Activity	(3,068)	20,135	19,517	-	(2,450)
Wrestling Activity	(1,597)	5,897	4,193	-	107
Volleyball Activity	8	3,628	2,949	-	687
Softball Activity	119	4,000	4,109	-	10
Activity Tickets	187	3,698	3,739	718	864
Golf Activity	(2,392)	3,450	1,019	-	39
Baseball Club	6,127	7,872	10,679	-	3,320
Cross Country Club	587	2,592	2,276	-	903
Boys Basketball Club	548	10,381	10,247	-	682
FFA Account	3,671	-	-	-	3,671
Interest	44	446	-	-	490
Girls Basketball Club	4,356	9,203	11,239	-	2,320
Library Club	411	-	-	-	411
Football Club	1,162	11,081	6,896	-	5,347
Drill Team	1,650	6,447	8,087	-	10
Middle School Pop/Juice	1,936	12,287	11,793	-	2,430
High School Pop/Juice	873	3,015	2,503	-	1,385
Revolving	-	55	55	-	-
High School Science Club	32	-	-	-	32
Softball Club	5,569	3,502	5,323	-	3,748
Elementary Student Council	2,214	1,600	-	-	3,814
Middle School Student Council	567	290	104	216	969
High School Student Council	1,144	7,429	7,332	-	1,241
High School Boys Track Club	786	2,741	1,281	-	2,246
FCCLA/FHA Account	250	-	-	-	250
High Vocal Activity	3,748	4,668	5,518	-	2,898
High School Volleyball Club	7	4,751	4,097	-	661
Weightlifting Club	292	-	292	-	-
High School Wrestling Club	1,809	8,541	6,561	-	3,789
High School Yearbook	247	4,066	1,827	-	2,486
High School Girls Track Club	680	1,412	1,012	-	1,080
Basketball Cheerleading	1,481	486	663	-	1,304
Football Cheerleading	445	4,541	4,265	-	721
Wrestling Cheerleading	8	813	776	-	45
Middle School Leadership	1,647	2,039	2,198	931	2,419
Middle School Quest	550	-	-	(550)	-
SOS Account	216	-	-	(216)	-
Sweatshirts	719	-	-	(719)	-
Alumni	816	-	-	495	1,311
Spanish Club	185	195	-	-	380
JH Volleyball Club	661	1,010	792	-	879

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 5

Account	Balance Beginning of Year	Revenues	Expendi-tures	Intra-fund Transfers	Balance End of Year
			-		
Jump Rope for Heart	100	10	100	-	10
Middle School Wrestling Club	158	-	-	-	158
Middle School Yearbook	1,064	1,525	844	-	1,745
Middle School Activity Center	381	-	-	(381)	-
Middle School Vocal Activity	3,202	-	648	-	2,554
Elementary Music	4,374	2,627	1,923	-	5,078
Elementary PAC	18,910	9,791	21,446	-	7,255
JH Girls Track Club	300	-	-	-	300
Girard Memorial Library Fund	165	25	-	-	190
Band Flag Corp	271	30	-	-	301
JH Football Club	18	-	-	-	18
JH Basketball Club	9	-	-	-	9
JH Boys Track Club	-	1,344	1,344	-	-
Class of 2011	389	-	-	(389)	-
Class of 2012	105	-	-	(105)	-
Class of 2013	55	-	24	-	31
Class of 2014	4,206	104	3,827	-	483
Class of 2015	1,010	17,457	15,614	-	2,853
Class of 2016	19	4,757	3,031	-	1,745
Class of 2017	-	603	603	-	-
Adopt Instrument Fund	5,144	-	2,851	-	2,293
Band/Chicago Trip	479	-	-	-	479
BB/SB Complex	529	-	529	-	-
Girls Soccer Club	1,698	98	538	-	1,258
Boys Soccer Club	472	1,937	2,370	-	39
District 8 Football	659	-	659	-	-
Golf Club	20	666	615	-	71
National Honor Society	355	320	185	-	490
Donations	8,479	24,393	27,870	-	5,002
Total	$ 80,699	262,172	273,788	-	69,083

Schedule 6

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

	Private Purpose Trust - Scholarship					
	Armstrong Scholarship	Boyer Scholarship	Torneton Scholarship	Wyland Scholarship	Health Committee	Total
ASSETS						
Cash and pooled investments	$ 6,109	8,311	502	3,788	4,798	23,508
LIABILITIES	-	-	-	-	-	-
NET POSITION						
Restricted for scholarships	6,109	8,311	502	3,788	-	18,710
Restricted for wellness activities	-	-	-	-	4,798	4,798
TOTAL NET POSITION	$ 6,109	8,311	502	3,788	4,798	23,508

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 7

UNDERWOOD COMMUNITY SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2014

	Private Purpose Trust - Scholarship					
	Armstrong Scholarship	Boyer Scholarship	Torneton Scholarship	Wyland Scholarship	Health Committee	Total
ADDITIONS:						
Local sources:						
Gifts and contributions	$ -	-	-	-	942	942
Interest income	15	10	-	17	-	42
TOTAL ADDITIONS	15	10	-	17	942	984
DEDUCTIONS:						
Instruction:						
Regular:						
Scholarships awarded	100	-	-	-	-	100
Supplies	-	-	-	-	48	48
TOTAL DEDUCTIONS	100	-	-	-	48	148
Change in net position	(85)	10	-	17	894	836
Net position beginning of year	6,194	8,301	502	3,771	3,904	22,672
Net position end of year	$ 6,109	8,311	502	3,788	4,798	23,508

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 8

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,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
REVENUES:										
Local sources:										
Local tax	$ 3,584,825	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
Tuition	772,587	683,714	693,153	631,429	529,795	582,847	535,398	530,597	496,622	489,707
Other	373,044	404,969	409,356	472,238	342,911	593,388	700,548	617,450	414,695	478,538
State sources	4,401,824	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
Federal sources	88,713	104,092	93,993	324,816	520,064	187,622	120,635	107,984	104,438	86,427
TOTAL	$ 9,220,993	9,258,144	9,278,267	9,368,897	8,363,016	8,483,021	8,034,300	7,128,987	6,550,510	6,110,309
EXPENDITURES:										
Current:										
Instruction:										
Regular	$ 3,538,364	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
Special	725,837	684,817	741,655	788,499	679,912	618,625	491,819	578,620	543,956	505,093
Other	909,586	824,858	797,259	826,527	809,326	725,085	690,333	611,006	613,966	614,014
Support services:										
Student	173,776	165,059	164,097	157,903	156,686	150,195	132,163	150,554	152,881	167,985
Instructional staff	341,893	374,339	339,439	271,138	275,727	216,595	278,716	222,390	215,561	221,128
Administration	982,545	971,268	964,859	914,131	897,778	878,294	857,999	798,067	702,332	665,318
Operation and maintenance of plant	911,734	878,104	852,770	876,114	791,686	794,137	679,452	608,972	609,510	650,068
Transportation	499,549	469,602	540,080	473,071	413,388	473,403	428,893	315,745	337,581	347,764
Non-instructional programs			-	-	-	-	-	-	-	1,207
Capital outlay	2,129,609	3,605,371	1,439,626	398,986	671,535	3,136,148	4,881,798	1,070,435	69,183	87,497
Other expenditures:										
Long-term debt:										
Principal	570,000	240,000	230,000	220,000	215,000	205,000	90,000	-	-	-
Interest and fiscal charges	299,454	246,511	190,794	200,094	209,181	217,894	313,935	54,766	-	-
AEA flow-through	287,364	280,205	280,435	309,671	297,169	263,267	232,064	222,271	206,685	194,509
TOTAL	$ 11,369,711	12,390,149	9,889,003	8,747,675	8,715,853	10,913,194	11,895,215	7,157,101	5,986,450	5,842,445

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, 2014, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 20, 2015.

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-14 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-14 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, 2014 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 PC

NOLTE, CORNMAN & JOHNSON, P.C.

February 20, 2015
Newton, Iowa

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

I-A-14 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-14 Non-Certified Time Sheets - We noted during our audit that the District does not maintain documentation of hours worked by coaches who are non-certified staff. This creates a situation where calculating wage per hour amounts is not possible.

Recommendation - In order to comply with the Department of Labor requirements on wage per hours contracts, the District needs to keep track of the hours worked for non-certified staff coaches. The District should then determine if wages paid comply with minimum wage and overtime requirements.

Response - The District has is started requiring non-certified staff coaches to keep timesheets.

Conclusion - Response accepted

OTHER MATTERS:

I-C-14 Deficit Student Account Balances - We noted during our audit that the district has multiple student Nutrition Fund balances with a deficit greater than $100.

Recommendation - The District should design and implement procedures with regard to deficit accounts. The amount of negative balances continues to be a concern. The board should direct management as to expectations in collecting deficit balances and how to proceed with lunch participation when an individual has a negative account balance.

Response - The district is working to design and implement procedures to collect on deficit accounts from inquiring deficit accounts in the future

Conclusion - Response accepted

Part II: Other Findings Related to Required Statutory Reporting:

II-A-14 Certified Budget - District disbursements for the year ended June 30, 2014 did not exceed the amounts budgeted.

II-B-14 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-14 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-14 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	$1,936
Marsha Slobodnick, Secretary Spouse owns TJ's Woodworking	Services	$7,450

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-14 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-14 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-14 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.

II-H-14 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

II-I-14 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-14 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-14 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.

II-L-14 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, 2014, 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 2014 audit:

Beginning balance		$ 320,225
Revenues:		
Sales tax revenues	$ 628,248	
Other local revenues	508	628,756
		948,981
Expenditures/transfer out:		
School infrastructure construction	77,744	
Equipment	78,611	
Transfer to another fund:		
Debt service fund	452,714	609,069
Ending balance		$ 339,912

For the year ended June 30, 2014, 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-14 Financial Condition - The District has a deficit unrestricted net position in the governmental activities of the $412,770 The District's Student Activity Fund had three deficit accounts with a total deficit unassigned fund balance of $32,951

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-14 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: Girard Memorial Library Fund, Donations and Middle School/High School Pop accounts do not appear to be extracurricular or cocurricular in nature.

Recommendation - The remaining funds in the Girard Memorial Library Fund account and the Middle School/High School Pop accounts would be more appropriate in the General Fund. The District should determine the intent of the donors for the Donations account and move those funds to the fund that is most appropriate for the expenditures for those donations.

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 reclassification/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

Scholarships: We noted during our audit that scholarships were paid out of the Student Activity Fund from the National Honor Society (NHS) account.

Recommendation - Scholarships are most appropriate from the Private Purpose Trust Fund; therefore, proceeds from scholarship fundraising should be placed and expended from the Private Purpose Trust Fund.

Response - The district will make changes to how the NHS's scholarship fundraising proceeds and expenditures are accounted for.

Conclusion - Response accepted

Items Purchased: We noted during our audit that the District purchased baseball scoreboard and replacement playground equipment from the Student Activity Fund. This is not an appropriate expense for the Activity Fund

Recommendation - The District should review the propriety of the revenues and expenditures that are approved in the Student Activity Fund. The expenditures for the baseball scoreboard and playground equipment would be more appropriate from the Capital Projects accounts or the General Fund.

Response - We have made changes to what are paid out of the activity fund.

Conclusion - Response accepted