

UNION COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

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Union Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2003 Election)		
Bart Flush	President	2003
Mark Nechanicky	Vice President	2004
John Robb	Board Member	2005
Reda Charmichael	Board Member	2003
Joe Connolly	Board Member	2004
Debra Oliver	Board Member	2005
Alan Finke	Board Member	2005

Board of Education

(After September 2003 Election)

Bart Flush	President	2006
Joe Connolly	Vice President	2004
John Robb	Board Member	2005
Reda Charmichael	Board Member	2006
Mark Nechanicky	Board Member	2004
Debra Oliver	Board Member	2005
Alan Finke	Board Member	2005

School Officials

Barry Green	Superintendent	2004
Kathy Krug	District Secretary/Treasurer and Business Manager	2004
Steve Weidner	Attorney	2004

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Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Union Community School District:

We have audited the accompanying financial statements of governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Union Community School District, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Union Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 11 to the financial statements, during the year ended June 30, 2004, Union Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation Number 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

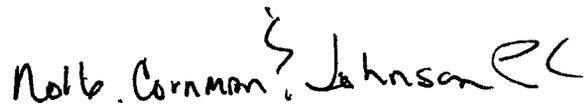
In accordance with Government Auditing Standards, we have also issued our report dated August 18, 2004 on our consideration of the Union Community School District's internal control over financial

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reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 36 through 39 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Union Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

August 18, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Union 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, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$8,469,245 in fiscal year 2003 to \$8,891,992 in fiscal year 2004, while General Fund expenditures increased from \$8,416,897 in fiscal 2003 to \$9,113,895 in fiscal 2004. This resulted in a decrease in the District's General Fund balance from \$458,482 in fiscal 2003 to \$236,664 in fiscal 2004, a 48.38% decrease from prior year.
- The increase in General Fund revenues was attributable to an increase in property tax and state and federal grant revenues in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures.
- Overall, the District decreased in net assets in the governmental activities of \$503,242, and increased in the business-type activities of \$3,044, respectively.
- A decline in interest rates during the past fiscal year, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone to decrease from \$18,348 in fiscal year 2003 to \$5,888 in fiscal year 2004.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Union 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 Union 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 Union Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

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

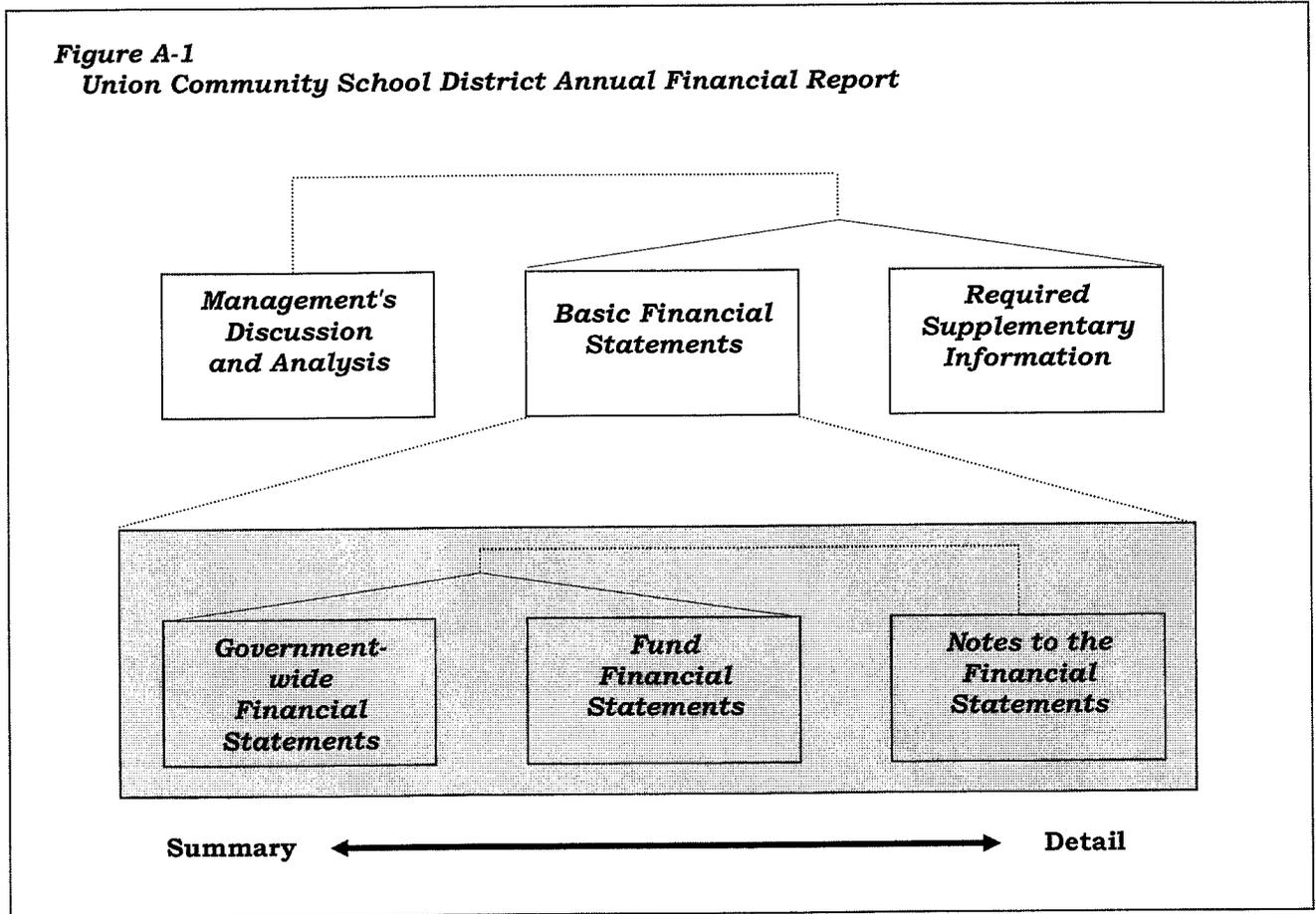


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

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 Fund and the Day and Knight Student Store/Cookbook Sales Fund.

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

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include the Agency fund.

- Agency Fund – These are funds through which the District administers and accounts for certain revenue collected for Northeast District FFA related expenditures.

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 District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets. These statements of fiduciary net assets are not included since the balances at year-end were zero.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District’s net assets for the year ended June 30, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities 2003	Business-type Activities 2003	Total 2003
Current and other assets	\$ 7,964,945	43,210	8,008,155
Capital assets	5,329,204	81,875	5,411,079
Total assets	<u>13,294,149</u>	<u>125,085</u>	<u>13,419,234</u>
Long-term obligations	2,275,342	0	2,275,342
Other liabilities	5,815,108	7,634	5,822,742
Total liabilities	<u>8,090,450</u>	<u>7,634</u>	<u>8,098,084</u>
Net assets:			
Invested in capital assets, net of related debt	3,718,324	81,875	3,800,199
Restricted	1,075,010	0	1,075,010
Unrestricted	410,365	35,576	445,941
Total net assets	<u>\$ 5,203,699</u>	<u>117,451</u>	<u>5,321,150</u>

Figure A-4 shows the changes in net assets for the year ended June 30, 2004.

Figure A-4
Changes of Net Assets

	Governmental Activities	Business-type Activities	Total School District
Revenues:			
Program revenues:			
Charges for services	\$ 1,013,554	295,078	1,308,632
Operating grants and contributions and restricted interest	1,050,144	184,866	1,235,010
General revenues:			
Property tax	3,566,144	0	3,566,144
Local option sales and services tax	641,649	0	641,649
Unrestricted state grants	3,884,402	0	3,884,402
Other	14,785	244	15,029
Total revenues	<u>10,170,678</u>	<u>480,188</u>	<u>10,650,866</u>
Program expenses:			
Governmental activities:			
Instructional	7,000,153	0	7,000,153
Support services	2,901,710	0	2,901,710
Non-instructional programs	6,248	477,144	483,392
Other expenses	765,809	0	765,809
Total expenses	<u>10,673,920</u>	<u>477,144</u>	<u>11,151,064</u>
Changes in net assets	<u>\$ (503,242)</u>	<u>3,044</u>	<u>(500,198)</u>

Property tax, local option sales and services tax and unrestricted state grants account for 76% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 89% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$10,170,678 and expenses were \$10,673,920.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 7,000,153	5,361,442
Support services	2,901,710	2,845,520
Non-instructional programs	6,248	6,248
Other expenses	765,809	397,012
Totals	<u>\$ 10,673,920</u>	<u>8,610,222</u>

- The cost financed by users of the District's programs was \$1,013,554.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,050,144.

- The net cost of governmental activities was financed with \$3,566,144 in property tax, \$641,649 in local option sales and services tax, \$3,884,402 in state foundation aid, \$14,700 in interest income and \$85 in gain on sale of equipment.

Business-Type Activities

Revenues of the District's business-type activities were \$480,188 and expenses were \$477,144. The District's business-type activities include the School Nutrition Fund and the Day and Knight Student Store/Cookbook Sales 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 Union 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 \$1,917,085, below last year's ending fund balances of \$2,036,939. However, the primary reason for the decrease in combined fund balances in fiscal 2004 is due to increased expenditures in the General Fund, as well as the District spending donated funds recorded in the Special Revenue, Expendable Trust Fund.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position from \$458,482 to \$236,664 is the product of many factors:
 - Increase in state aid and federal grants and increase in tax levy during the year resulted in an increase in revenues.
 - The increase in negotiated salary and benefits settlement, as well as existing expenditure commitments of the District, resulted in an increase in expenditures.
 - The increase in expenditures was greater than the increase in revenues resulting in a net decrease of \$221,818.
- The Special Revenue, Expendable Trust Fund balance decreased from \$932,588 in fiscal 2003 to \$770,606 in fiscal 2004. This decrease is due to the spending of estate donations for student programs.
- The Capital Projects Fund balance increased from \$305,361 in fiscal 2003 to \$537,060 in fiscal 2004. This is due to increased revenues from the local option sales and services tax and less expenditures compared to the prior year.

Proprietary Funds Highlights

The School Nutrition Fund net assets increased from \$113,838 at June 30, 2003 to \$116,651 at June 30, 2004, representing an increase of 2.47%.

The Day and Knight Fund net assets increased from \$569 at June 30, 2003 to \$800 at June 30, 2004, representing an increase of 40.60%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$133,663 more than budgeted revenues, a variance of 1.27%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures functional area due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$5.4 million, 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) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$657,836.

The original cost of the District's capital assets was \$14.3 million. Governmental funds account for \$14.1 million with the remainder of \$0.2 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$1,880,307 at June 30, 2003, compared to \$1,462,335 reported at June 30, 2004. This significant decrease resulted from current year depreciation expense.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities	Business-type Activities	Total
Land	\$ 53,729	0	53,729
Buildings	3,737,438	0	3,737,438
Land improvements	75,702	0	75,702
Machinery and equipment	1,462,335	81,875	1,544,210
Total	\$ 5,329,204	81,875	5,411,079

Long-Term Debt

At June 30, 2004, the District had \$2,275,342 in other long-term debt outstanding. This represents a decrease of 10.5% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding revenue bonded indebtedness payable from the Capital Projects Fund of \$1,545,000 at June 30, 2004.

The District had total outstanding revenue bonds indebtedness from the Capital Projects Fund of \$445,000 at June 30, 2004.

The District had total outstanding notes payable from the Special Revenue, Physical Plant and Equipment Levy to the Special Revenue, Expendable Trust Fund of \$150,000 at June 30, 2004.

The District had total outstanding early retirement payable from the Special Revenue, Management Fund of \$135,342 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
Revenue bonds	\$ 1,545,000	1,810,000	-14.6%
Revenue bans	445,000	445,000	0.0%
Note payable	150,000	190,000	-21.1%
Early retirement	135,342	96,730	39.9%
Totals	<u>\$ 2,275,342</u>	<u>2,541,730</u>	<u>-10.5%</u>

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:

- The state's economy is showing limited signs of economic recovery. A weaker economy adversely impacts the amount of new general fund money available to the District.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- The voters of Tama and Benton Counties passed the Local Option Sales and Services Tax for School Infrastructure (SILO). This 1 cent tax on sales and services will greatly benefit the District in maintaining their buildings, purchasing equipment and debt repayment. The funding will begin in September 2004.

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 Kathy Krug, District Secretary/Treasurer and Business Manager, Union Community School District, 200 Adams, La Porte City, Iowa, 50651.

BASIC FINANCIAL STATEMENTS

UNION COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 4)	\$ 2,482,204	0	2,482,204
Other	1,691,995	37,987	1,729,982
Receivables:			
Property tax:			
Delinquent	47,608	0	47,608
Succeeding year	3,246,547	0	3,246,547
Income surtax	240,692	0	240,692
Accounts	631	387	1,018
Accrued interest:			
ISCAP(Note 4)	3,959	0	3,959
Other	1,059	0	1,059
Note(Note 7)	150,000	0	150,000
Due from other governments	100,250	0	100,250
Inventories	0	4,836	4,836
Capital assets, net of accumulated depreciation(Note 5)	5,329,204	81,875	5,411,079
TOTAL ASSETS	13,294,149	125,085	13,419,234
LIABILITIES			
Accounts payable	58,935	387	59,322
ISCAP warrants payable(Note 4)	2,492,000	0	2,492,000
ISCAP interest payable(Note 4)	6,129	0	6,129
ISCAP unamortized premium	3,557	0	3,557
Accrued interest payable	7,940	0	7,940
Deferred revenue:			
Succeeding year property tax	3,246,547	0	3,246,547
Other	0	7,247	7,247
Long-term liabilities(Note 6):			
Portion due within one year:			
Revenue bonds payable	280,000	0	280,000
Revenue bans payable	445,000	0	445,000
Early retirement payable	62,605	0	62,605
Portion due after one year:			
Revenue bonds payable	1,265,000	0	1,265,000
Note payable	150,000	0	150,000
Early retirement payable	72,737	0	72,737
TOTAL LIABILITIES	8,090,450	7,634	8,098,084
NET ASSETS			
Investment in capital assets, net of related debt	3,718,324	81,875	3,800,199
Restricted for:			
Phase III	841	0	841
Early intervention	83,220	0	83,220
Talented and gifted	9,806	0	9,806
Salary improvement program	151	0	151
Expendable trust	770,606	0	770,606
Other special revenue purposes	210,386	0	210,386
Unrestricted	410,365	35,576	445,941
TOTAL NET ASSETS	\$ 5,203,699	117,451	5,321,150

SEE NOTES TO FINANCIAL STATEMENTS.

UNION COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
JUNE 30, 2004

	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 4,844,053	273,420	675,901
Special instruction	1,131,918	0	0
Other instruction	1,024,182	689,390	0
	<u>7,000,153</u>	<u>962,810</u>	<u>675,901</u>
Support services:			
Student services	207,845	0	0
Instructional staff services	390,122	0	0
Administration services	922,734	0	0
Operation and maintenance of plant services	757,436	0	0
Transportation services	623,573	50,744	5,446
	<u>2,901,710</u>	<u>50,744</u>	<u>5,446</u>
Non-instructional programs:			
Food service operations	6,248	0	0
Other expenditures:			
Facilities acquisitions	61,063	0	0
Long-term debt interest	109,176	0	0
AEA flowthrough	368,797	0	368,797
Depreciation(unallocated)*	226,773	0	0
	<u>765,809</u>	<u>0</u>	<u>368,797</u>
Total governmental activities	10,673,920	1,013,554	1,050,144
Business-Type activities:			
Non-instructional programs:			
Nutrition services	477,049	294,752	184,866
Daycare services	95	326	0
Total business-type activities	<u>477,144</u>	<u>295,078</u>	<u>184,866</u>
Total	<u>\$ 11,151,064</u>	<u>1,308,632</u>	<u>1,235,010</u>

General Revenues:

Property tax levied for:
 General purposes
 Capital outlay
Local option sales and services tax
Unrestricted state grants
Unrestricted investment earnings
Gain on sale of equipment

Total general revenues

Changes in net assets

Net assets beginning of year, as restated(Note 11)

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(3,894,732)	0	(3,894,732)
(1,131,918)	0	(1,131,918)
(334,792)	0	(334,792)
<u>(5,361,442)</u>	<u>0</u>	<u>(5,361,442)</u>
(207,845)	0	(207,845)
(390,122)	0	(390,122)
(922,734)	0	(922,734)
(757,436)	0	(757,436)
(567,383)	0	(567,383)
<u>(2,845,520)</u>	<u>0</u>	<u>(2,845,520)</u>
<u>(6,248)</u>	<u>0</u>	<u>(6,248)</u>
(61,063)	0	(61,063)
(109,176)	0	(109,176)
0	0	0
(226,773)	0	(226,773)
<u>(397,012)</u>	<u>0</u>	<u>(397,012)</u>
(8,610,222)	0	(8,610,222)
0	2,569	2,569
0	231	231
0	<u>2,800</u>	<u>2,800</u>
<u>(8,610,222)</u>	<u>2,800</u>	<u>(8,607,422)</u>
\$ 3,470,773	0	3,470,773
95,371	0	95,371
641,649	0	641,649
3,884,402	0	3,884,402
14,700	244	14,944
85	0	85
<u>8,106,980</u>	<u>244</u>	<u>8,107,224</u>
(503,242)	3,044	(500,198)
<u>5,706,941</u>	<u>114,407</u>	<u>5,821,348</u>
<u>\$ 5,203,699</u>	<u>117,451</u>	<u>5,321,150</u>

UNION COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Special Revenue - Expendable Trust	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments:					
ISCAP(Note 4)	\$ 2,482,204	0	0	0	2,482,204
Other	231,058	623,589	467,895	369,453	1,691,995
Receivables:					
Property tax					
Delinquent	43,609	0	0	3,999	47,608
Succeeding year	2,974,915	0	0	271,632	3,246,547
Income surtax	240,692	0	0	0	240,692
Accounts	0	0	0	631	631
Accrued interest:					
ISCAP(Note 4)	3,959	0	0	0	3,959
Other	317	335	258	149	1,059
Note(Note 7)	0	150,000	0	0	150,000
Due from other governments	16,700	0	83,550	0	100,250
TOTAL ASSETS	\$ 5,993,454	773,924	551,703	645,864	7,964,945
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 39,497	3,318	14,643	1,477	58,935
ISCAP warrants payable(Note 4)	2,492,000	0	0	0	2,492,000
ISCAP interest payable(Note 4)	6,129	0	0	0	6,129
ISCAP unamortized premium	3,557	0	0	0	3,557
Deferred revenue:					
Succeeding year property tax	2,974,915	0	0	271,632	3,246,547
Income surtax	240,692	0	0	0	240,692
Total liabilities	5,756,790	3,318	14,643	273,109	6,047,860
Fund balances:					
Reserved for:					
Phase III	841	0	0	0	841
Early intervention	83,220	0	0	0	83,220
Talented and gifted	9,806	0	0	0	9,806
Salary improvement program	151	0	0	0	151
Unreserved:					
General	142,646	0	0	0	142,646
Expendable trust	0	770,606	0	0	770,606
Capital projects	0	0	537,060	0	537,060
Management levy	0	0	0	66,943	66,943
Physical plant and equipment levy	0	0	0	95,426	95,426
Other special revenue purposes	0	0	0	210,386	210,386
Total fund balances	236,664	770,606	537,060	372,755	1,917,085
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,993,454	773,924	551,703	645,864	7,964,945

SEE NOTES TO FINANCIAL STATEMENTS.

UNION COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2004

Total fund balances of governmental funds (page 17)	\$	1,917,085
 Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.		5,329,204
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		240,692
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.		(7,940)
Long-term liabilities, including revenue bonds payable, revenue bans payable, note payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(2,275,342)
		<hr/>
Net assets of governmental activites (page 14)	\$	<u>5,203,699</u>

SEE NOTES TO FINANCIAL STATEMENTS.

UNION COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	General	Special Revenue - Expendable Trust	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 3,293,194	0	641,649	279,217	4,214,060
Tuition	273,420	0	0	0	273,420
Other	391,077	4,638	26,525	332,594	754,834
Intermediate sources	150,789	0	0	0	150,789
State sources	4,575,197	0	0	245	4,575,442
Federal sources	208,315	0	0	0	208,315
Total revenues	8,891,992	4,638	668,174	612,056	10,176,860
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	4,228,068	166,620	0	117,432	4,512,120
Special instruction	1,121,715	0	0	0	1,121,715
Other instruction	626,128	0	0	337,793	963,921
	5,975,911	166,620	0	455,225	6,597,756
Support services:					
Student services	205,122	0	0	0	205,122
Instructional staff services	370,491	0	0	0	370,491
Administration services	879,156	0	0	27,007	906,163
Operation and maintenance of plant services	709,125	0	0	39,297	748,422
Transportation services	605,293	0	0	18,280	623,573
	2,769,187	0	0	84,584	2,853,771
Other expenditures:					
Facilities acquisitions	0	0	61,063	0	61,063
Long-term debt:					
Principal	0	0	0	305,000	305,000
Interest and fiscal charges	0	0	0	110,412	110,412
AEA flowthrough	368,797	0	0	0	368,797
	368,797	0	61,063	415,412	845,272
Total expenditures	9,113,895	166,620	61,063	955,221	10,296,799
Excess(deficiency) of revenues over(under) expenditures	(221,903)	(161,982)	607,111	(343,165)	(119,939)
Other financing sources(uses):					
Transfer in	0	0	0	415,412	415,412
Transfer out	0	0	(375,412)	(40,000)	(415,412)
Sale of equipment	85	0	0	0	85
Total other financing sources(uses)	85	0	(375,412)	375,412	85
Net change in fund balances	(221,818)	(161,982)	231,699	32,247	(119,854)
Fund balance beginning of year	458,482	932,588	305,361	340,508	2,036,939
Fund balance end of year	\$ 236,664	770,606	537,060	372,755	1,917,085

SEE NOTES TO FINANCIAL STATEMENTS.

UNION 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, 2004

Net change in fund balances - total governmental funds (page 19)	\$	(119,854)
 Amounts reported for governmental activities in the statement of activities are different because:		
<p>Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of current depreciation exceed expenditures in the current year, as follows:</p>		
Depreciation expense	\$ (644,745)	(644,745)
Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		(6,267)
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.		
Early Retirement		(38,612)
Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.		305,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		1,236
		<u>1,236</u>
Changes in net assets of governmental activities (page 16)	\$	<u>(503,242)</u>

SEE NOTES TO FINANCIAL STATEMENTS.

UNION COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2004

	School Nutrition	Day and Knight	Total
ASSETS			
Current assets:			
Cash and pooled investments	\$ 37,187	800	37,987
Accounts receivable	387	0	387
Inventories	4,836	0	4,836
Capital assets, net of accumulated depreciation(Note 5)	81,875	0	81,875
TOTAL ASSETS	<u>124,285</u>	<u>800</u>	<u>125,085</u>
LIABILITIES			
Accounts payable	387	0	387
Deferred revenue:			
Other	7,247	0	7,247
TOTAL LIABILITIES	<u>7,634</u>	<u>0</u>	<u>7,634</u>
NET ASSETS			
Investment in capital assets, net of related debt	81,875	0	81,875
Unrestricted	34,776	800	35,576
Total net assets	<u>\$ 116,651</u>	<u>800</u>	<u>117,451</u>

SEE NOTES TO FINANCIAL STATEMENTS.

UNION COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2004

	School Nutrition	Day and Knight	Total
OPERATING REVENUE:			
Local sources:			
Charges for service	\$ 294,752	326	295,078
OPERATING EXPENSES:			
Non-instructional programs:			
Food service operations:			
Salaries	139,329	0	139,329
Benefits	87,311	0	87,311
Services	1,642	0	1,642
Supplies	235,676	95	235,771
Depreciation	13,091	0	13,091
TOTAL OPERATING EXPENSES	477,049	95	477,144
OPERATING INCOME (LOSS)	(182,297)	231	(182,066)
NON-OPERATING REVENUES:			
State sources	7,434	0	7,434
Federal sources	177,432	0	177,432
Interest income	244	0	244
TOTAL NON-OPERATING REVENUES	185,110	0	185,110
Changes in net assets	2,813	231	3,044
Net assets beginning of year	113,838	569	114,407
Net assets end of year	\$ 116,651	800	117,451

SEE NOTES TO FINANCIAL STATEMENTS.

UNION COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2004

	School Nutrition	Day and Knight	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 290,415	0	290,415
Cash received from miscellaneous operating activities	4,840	326	5,166
Cash payments to employees for services	(226,640)	0	(226,640)
Cash payments to suppliers for goods or services	(204,511)	(95)	(204,606)
Net cash provided by (used in) operating activities	(135,896)	231	(135,665)
Cash flows from non-capital financing activities:			
State grants received	7,434	0	7,434
Federal grants received	144,885	0	144,885
Net cash provided by non-capital financing activities	152,319	0	152,319
Cash flows from capital financing activities:			
Acquisition of capital assets	(8,300)	0	(8,300)
Net cash used in capital financing activities	(8,300)	0	(8,300)
Cash flows from investing activities:			
Interest on investment	244	0	244
Net cash provided by investing activities	244	0	244
Net increase in cash and cash equivalents	8,367	231	8,598
Cash and cash equivalents at beginning of year	28,820	569	29,389
Cash and cash equivalents at end of year	\$ 37,187	800	37,987
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ (182,297)	231	(182,066)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Commodities consumed	32,547	0	32,547
Depreciation	13,091	0	13,091
Increase in inventories	(127)	0	(127)
Increase in accounts receivable	(106)	0	(106)
Increase in accounts payable	387	0	387
Increase in deferred revenue	609	0	609
Net cash provided by (used in) operating activities	\$ (135,896)	231	(135,665)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and investments	\$ 37,187	800	37,987
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			

During the year ended June 30, 2004, the District received Federal commodities valued at \$32,547.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNION COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

(1) Summary of Significant Accounting Policies

The Union 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 Cities of La Porte City, Dysart and Mount Auburn, Iowa, and the predominate agricultural territory in Tama, Blackhawk, Buchanan and Benton Counties. 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, Union 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 Union 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 Tama, Blackhawk, Buchanan and Benton Counties Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues,

are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that 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, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Special Revenue, Expendable Trust Fund is utilized to account for the payments of scholarships to students.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following proprietary funds:

The District's proprietary funds are the School Nutrition Fund and the Day and Knight Fund. The Nutrition Fund is used to account for the food service operations of the District. The Day and Knight Fund is used to account for the student store/cookbook sales operations of the District.

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

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the

District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

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, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

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

Asset Class	Estimated Useful Life (In Years)
Buildings	50 years
Land improvements	20-50 years
Machinery and equipment	5-20 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the

current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, expenditures in the other expenditures functional area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2004 were entirely covered by federal depository insurance or by the 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 which are valued at an amortized cost of \$1,383,330 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires

investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

(3) Transfers

The detail of transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 375,412
Debt Service	Special Revenue, Physical Plant and Equipment Levy	40,000
Total		<u>\$ 415,412</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Accrued Warrants Payable	Accrued Interest Payable
2003-04B	1/30/04	1/28/05	\$ 743,025	3,959	738,000	6,129
2004-05A	6/30/04	6/30/05	1,739,179	0	1,754,000	0
Total			<u>\$ 2,482,204</u>	<u>3,959</u>	<u>2,492,000</u>	<u>6,129</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2004 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2003-04A \$	0	400,000	400,000	0
2003-04B	0	475,000	475,000	0
Total \$	0	875,000	875,000	0

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04A	2.000%	1.050%
2003-04B	2.000%	1.310%
2004-05A	3.000%	2.463%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year, as restated (Note 11)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 53,729	0	0	53,729
Total capital assets not being depreciated	53,729	0	0	53,729
Capital assets being depreciated:				
Buildings	8,735,504	0	0	8,735,504
Land improvements	1,182,226	0	0	1,182,226
Machinery and equipment	4,142,668	0	0	4,142,668
Total capital assets being depreciated	14,060,398	0	0	14,060,398
Less accumulated depreciation for:				
Buildings	4,801,013	197,053	0	4,998,066
Land improvements	1,076,804	29,720	0	1,106,524
Machinery and equipment	2,262,361	417,972	0	2,680,333
Total accumulated depreciation	8,140,178	644,745	0	8,784,923
Total capital assets being depreciated, net	5,920,220	(644,745)	0	5,275,475
Governmental activities capital assets, net	\$ 5,973,949	(644,745)	0	5,329,204

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 199,694	8,300	0	207,994
Less accumulated depreciation	113,028	13,091	0	126,119
Business-type activities capital assets, net	\$ 86,666	(4,791)	0	81,875

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 293,321
Special		10,203
Other		60,261
Support services:		
Student		2,723
Instructional staff		19,631
Administration		16,571
Operation and maintenance of plant		9,014
Non-instructional programs		6,248
		<u>417,972</u>
Unallocated depreciation		226,773
		<u>644,745</u>
Business-type activities:		
Food services		\$ 13,091

(6) Long-Term Liabilities

A summary of changes in long-term debt for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Revenue bonds	1,810,000	0	265,000	1,545,000	280,000
Revenue bans	445,000	0	0	445,000	445,000
Notes payable	190,000	0	40,000	150,000	0
Early retirement	96,730	71,988	33,376	135,342	62,605
Total	\$ 2,541,730	71,988	338,376	2,275,342	787,605

Revenue Bonds Payable

Details of the District's June 30, 2004 revenue bonded indebtedness are as follows:

Year	Issue dated December 1, 2001			
Ending	Interest			
June 30,	Rates	Principal	Interest	Total
2005	5.00 %	\$ 280,000	77,250	357,250
2006	5.00	290,000	63,250	353,250
2007	5.00	310,000	48,750	358,750
2008	5.00	325,000	33,250	358,250
2009	5.00	340,000	17,000	357,000
Total		<u>\$ 1,545,000</u>	<u>239,500</u>	<u>1,784,500</u>

Revenue Bond Anticipation Notes Payable

Details of the District's June 30, 2004 revenue bonds indebtedness are as follows:

Year	Issue dated August 1, 2002			
Ending	Interest			
June 30,	Rates	Principal	Interest	Total
2005	4.05 %	\$ 445,000	18,023	463,023
Total		<u>\$ 445,000</u>	<u>18,023</u>	<u>463,023</u>

Note Payable

During the year ended June 30, 2000, the PPEL borrowed \$250,000 from the Bower Trust for construction expenses. The District is currently making annual payments from the Physical Plant and Equipment Levy to the Bower Trust to repay the amount borrowed. The Board intentionally disregarded the repayment schedule set in place when the amount was originally borrowed. However, the District reserves the right to not repay the amount borrowed. Since there is no current repayment schedule in place, we are unable to determine the amount to be repaid within one year.

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to a calculation of base salary less starting base salary and number of years of consecutive service. Early retirement benefits paid during the year ended June 30, 2004, totaled \$33,376. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(7) Note Receivable

The District's Bower Trust fund loaned the Special Revenue, Physical Plant and Equipment Levy Fund \$250,000 to be used for construction expenses. The District currently plans on repaying this loan over the next several years. At the same time, the District is not required to repay this loan.

(8) 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 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$270,784, \$263,198 and \$264,395 respectively, equal to the required contributions for each year.

(9) Risk Management

Union 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. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) 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 \$368,797 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(11) Accounting Change and Restatements

Governmental Accounting Standards Board(GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absences and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board(GASB) Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments; Omnibus, Statement Number 38, Certain Financial Statement Note Disclosures, and Statement Number 41, Budgetary Comparison Schedule - Perspective Differences; were implemented during the year ended June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include District-wide financial statements prepared on an accrual basis of accounting and fund financial

statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

Beginning capital assets for governmental activities of \$11,323,301 were restated to \$14,114,127. The restatement was primarily to reflect the appraisal numbers received by the District.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund				Total
	General	Special Revenue, Expendable Trust	Capital Projects	Other Nonmajor Governmental Funds	
Net assets, June 30, 2003, as previously reported	\$ 458,482	932,588	305,361	340,508	2,036,939
Reclass long-term debt to current liability	0	0	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	<u>\$ 458,482</u>	<u>932,588</u>	<u>305,361</u>	<u>340,508</u>	<u>2,036,939</u>
GASB 34 adjustments:					
Capital assets, net of accumulated depreciation of \$8,140,178					5,973,949
Income surtax					246,959
Long-term liabilities:					
Revenue bonds payable				\$ 1,810,000	
Revenue bans payable				445,000	
Note payable				190,000	
Early retirement payable				96,730	(2,541,730)
Accrued interest payable					(9,176)
Net assets, July 1, 2003, as restated					<u>\$ 5,706,941</u>

(12) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2004, disbursements in the other expenditures functional program area exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

UNION COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF RECEIPTS, DISBURSEMENTS AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 5,255,227	295,825
Intermediate sources	150,789	0
State sources	4,574,442	7,434
Federal sources	225,679	177,432
Total receipts	<u>10,206,137</u>	<u>480,691</u>
Disbursements:		
Instruction	6,614,440	0
Support services	2,800,914	0
Non-instructional programs	1,699	472,093
Other expenditures	817,916	0
Total disbursements	<u>10,234,969</u>	<u>472,093</u>
Excess(deficiency) of receipts over(under) disbursements	(28,832)	8,598
Other financing sources, net	<u>85</u>	<u>0</u>
Excess(deficiency) of receipts and other financing sources over(under) disbursements	(28,747)	8,598
Balance beginning of year	<u>1,720,742</u>	<u>29,389</u>
Balance end of year	<u>\$ 1,691,995</u>	<u>37,987</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
5,551,052	5,097,251	5,097,251	(453,801)
150,789	208,000	208,000	57,211
4,581,876	4,936,914	4,936,914	355,038
403,111	311,000	311,000	(92,111)
<u>10,686,828</u>	<u>10,553,165</u>	<u>10,553,165</u>	<u>(133,663)</u>
6,614,440	7,145,547	7,145,547	531,107
2,800,914	3,078,000	3,078,000	277,086
473,792	519,377	519,377	45,585
817,916	743,910	743,910	(74,006)
<u>10,707,062</u>	<u>11,486,834</u>	<u>11,486,834</u>	<u>779,772</u>
(20,234)	(933,669)	(933,669)	(913,435)
85	0	0	85
(20,149)	(933,669)	(933,669)	(913,350)
<u>1,750,131</u>	<u>2,131,253</u>	<u>2,131,253</u>	<u>381,122</u>
<u>1,729,982</u>	<u>1,197,584</u>	<u>1,197,584</u>	<u>(532,228)</u>

UNION COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 10,206,137	(29,277)	10,176,860
Expenditures	10,234,969	61,830	10,296,799
Net	(28,832)	(91,107)	(119,939)
Other financing sources	85	152,937	85
Beginning fund balances	1,720,742	316,197	2,036,939
Ending fund balances	\$ 1,691,995	378,027	1,917,085

	Proprietary Fund Type		
	Enterprise		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 480,691	(503)	480,188
Expenditures	472,093	5,051	477,144
Net	8,598	(5,554)	3,044
Beginning net assets	29,389	85,018	114,407
Ending net assets	\$ 37,987	79,464	117,451

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNION COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2004

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 cash basis. Encumbrances are not recognized on the cash 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 functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2004, disbursements in the other expenditures functional area exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

UNION COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2004

	Special Revenue Funds			
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds
ASSETS				
Cash and pooled investments	\$ 64,309	211,134	94,010	369,453
Receivables:				
Property tax				
Delinquent	2,633	0	1,366	3,999
Succeeding year	180,000	0	91,632	271,632
Accounts	0	631	0	631
Accrued interest:				
Other	1	98	50	149
TOTAL ASSETS	\$ 246,943	211,863	187,058	645,864
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts payable	\$ 0	1,477	0	1,477
Deferred revenue - succeeding year property tax	180,000	0	91,632	271,632
Total Liabilities	180,000	1,477	91,632	273,109
Fund Equity:				
Unreserved fund balances	66,943	210,386	95,426	372,755
TOTAL LIABILITIES AND FUND EQUITY	\$ 246,943	211,863	187,058	645,864

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNION COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 OTHER NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2004

	Special Revenue Funds				Debt Service	Total Other Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds		
REVENUES:						
Local sources:						
Local tax	\$ 183,846	0	95,371	279,217	0	279,217
Other	177	331,901	516	332,594	0	332,594
State sources	161	0	84	245	0	245
TOTAL REVENUES	184,184	331,901	95,971	612,056	0	612,056
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	68,852	0	48,580	117,432	0	117,432
Other instruction	0	337,793	0	337,793	0	337,793
Support services:						
Administration services	27,007	0	0	27,007	0	27,007
Operation and maintenance of plant services	25,411	0	13,886	39,297	0	39,297
Transportation services	18,280	0	0	18,280	0	18,280
Other expenditures:						
Long-term debt:						
Principal	0	0	0	0	305,000	305,000
Interest and fiscal charges	0	0	0	0	110,412	110,412
TOTAL EXPENDITURES	139,550	337,793	62,466	539,809	415,412	955,221
Excess (deficiency) of revenues over (under) expenditures	44,634	(5,892)	33,505	72,247	(415,412)	(343,165)
OTHER FINANCING SOURCES (USES):						
Transfer in	0	0	0	0	415,412	415,412
Transfer out	0	0	(40,000)	(40,000)	0	(40,000)
TOTAL OTHER FINANCING SOURCES (USES)	0	0	(40,000)	(40,000)	415,412	375,412
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	44,634	(5,892)	(6,495)	32,247	0	32,247
FUND BALANCES BEGINNING OF YEAR	22,309	216,278	101,921	340,508	0	340,508
FUND BALANCES END OF YEAR	\$ 66,943	210,386	95,426	372,755	0	372,755

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNION COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2004

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Band Uniforms	\$ 3,806	1,015	2,924	1,897
HS Band	0	1,829	1,829	0
MS Band	895	10	0	905
Choir	0	7,229	5,378	1,851
Band Uniforms Fees	2,125	403	389	2,139
Choir Robes	2,617	582	0	3,199
PY Annual	554	(554)	0	0
Annual 2003	1,325	3,155	4,480	0
Memory Book	2,521	1,054	334	3,241
Annual 2004	0	10,370	10,370	0
Drama	7,346	7,554	7,746	7,154
LPC Elem Operetta	703	0	583	120
Elem - LPC Art Show	328	502	411	419
Music Activity	831	0	0	831
Speech	625	6,248	6,873	0
Variety Show	249	0	0	249
<u>High School Athletics:</u>				
Cross Country	0	541	541	0
Boys Basketball	4,433	2,848	3,355	3,926
Football	4,918	30,650	33,481	2,087
Booster Club	33,725	33,210	38,493	28,442
Baseball	192	6,056	6,248	0
Boys Track	102	1,408	1,510	0
Boys Soccer	0	6,500	5,885	615
Boys Tennis	0	274	274	0
Boys Golf	0	959	959	0
Wrestling	2,449	6,967	7,916	1,500
Girls Basketball	4,488	2,430	3,342	3,576
Volleyball	2,356	3,543	3,473	2,426
Softball	678	5,200	5,442	436
Girls Track	0	888	888	0
Girls Tennis	0	71	71	0
Girls Golf	0	811	811	0
Girls Soccer	0	7,411	7,411	0
General Athletics	0	7,259	7,259	0
<u>Middle School Athletics:</u>				
Boys Basketball	0	1,140	1,140	0
Football	0	2,337	2,337	0
Baseball	0	1,310	1,310	0
Boys Track	0	1,267	1,267	0
Wrestling	0	261	261	0
Girls Basketball	0	635	635	0
Softball	0	426	426	0
Girls Track	0	927	927	0
Volleyball	0	70	70	0
General Athletics	8,607	2,286	934	9,959

UNION COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2004

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
General Soccer	13,000	(13,000)	0	0
Towels	16,810	4,282	2,188	18,904
Elem - DG	2,739	6,867	6,410	3,196
Elem - LPC	202	4,859	4,102	959
FFA	2,340	18,157	19,908	589
Art Club	3,198	2,751	2,197	3,752
HS Dance Squad	0	1,835	1,685	150
<u>Classes:</u>				
Class of 2003	1,874	(1,874)	0	0
Class of 2004	3,249	101	711	2,639
Class of 2005	3,508	4,130	6,328	1,310
Class of 2006	3,136	25	0	3,161
Class of 2007	3,188	25	0	3,213
Class of 2008	1,933	837	0	2,770
Class of 2009	1,021	1,285	0	2,306
Class of 2010	0	1,160	0	1,160
Silver Cord	0	205	205	0
Math Club	197	0	0	197
National Honor Society	0	275	275	0
HS Cheerleaders	2,254	10,218	12,149	323
MS Dance Team	60	2,693	2,753	0
MS Cheerleaders	0	1,270	1,212	58
Student Council - DG	955	1,424	1,767	612
Student Council - HS	0	1,829	1,829	0
Student Council - MS	5,371	12,043	9,149	8,265
Student Council - LPC	1,455	2,165	1,056	2,564
Concessions	13,729	48,494	39,780	22,443
Candy	4,930	(2,678)	0	2,252
Endowment Fund	13,285	3,024	0	16,309
Fruit/Juice Break	5,461	19,042	17,712	6,791
Student Activity	15,692	(32)	613	15,047
German Club	1,444	620	1,472	592
Middle School	3,262	26	0	3,288
Pictures	7,107	821	0	7,928
HS Student Pop	1,436	9,040	6,969	3,507
MS Magazine Sales	0	22,280	22,280	0
Talented and Gifted	750	661	0	1,411
Adult Education	466	0	0	466
General Transfers	247	(247)	0	0
Nutrition Transfers	594	(594)	0	0
Accrual Adjustments	(4,488)	800	(2,940)	(748)
Total	\$ 216,278	331,901	337,793	210,386

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNION COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, EXPENDABLE TRUST ACCOUNTS
 YEAR ENDED JUNE 30, 2004

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Bowers Estate	\$ 263,828	508	0	264,336
Bader Scholarship	2,811	19	0	2,830
Bader Athletic	2,502	17	0	2,519
Nurse Fund	2,234	0	0	2,234
Centennial Scholarship	4,072	166	4,063	175
Larson Estate	20,058	133	0	20,191
Anders Scholarship	100,686	1,548	0	102,234
Anders Estate	536,397	2,247	162,557	376,087
Total	\$ 932,588	4,638	166,620	770,606

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNION COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2004

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
ASSETS				
Cash and pooled investments	\$ 2,651	3,084	5,735	0
LIABILITIES				
Due to other groups	\$ 2,651	3,084	5,735	0

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNION COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 4,214,060	3,998,682	3,806,385	3,494,615
Tuition	273,420	260,431	344,673	306,912
Other	754,834	597,520	1,088,496	492,604
Intermediate sources	150,789	141,896	207,641	134,654
State sources	4,575,442	4,422,811	4,274,666	4,450,904
Federal sources	208,315	190,127	145,596	104,132
Total	<u>\$ 10,176,860</u>	<u>9,611,467</u>	<u>9,867,457</u>	<u>8,983,821</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 4,512,120	4,014,504	3,890,622	3,509,274
Special instruction	1,121,715	1,054,193	1,029,912	999,629
Other instruction	963,921	908,157	891,801	845,844
Support services:				
Student services	205,122	164,229	230,005	205,627
Instructional staff services	370,491	356,421	340,609	386,298
Administration services	906,163	828,527	849,475	771,773
Operation and maintenance of plant services	748,422	694,582	637,768	640,507
Transportation services	623,573	557,066	586,088	459,135
Central services	0	0	0	71,740
Non-instructional programs	0	0	1,280	43,460
Other expenditures:				
Facilities acquisition	61,063	652,634	954,493	1,713,497
Long-term debt:				
Principal	305,000	256,461	252,275	11,459
Interest and other charges	110,412	121,540	120,589	61,673
AEA flowthrough	368,797	354,393	344,747	360,419
Total	<u>\$ 10,296,799</u>	<u>9,962,707</u>	<u>10,129,664</u>	<u>10,080,335</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Board of Education of the
Union Community School District:

We have audited the financial statements of Union Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 18, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Union 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 grants, 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 that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 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 on 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. Prior year statutory comments have all been resolved except for items II-B-04 and II-G-04.

Internal Control Over Financial Reporting

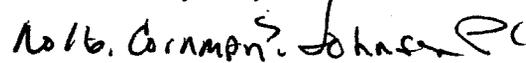
In planning and performing our audit, we considered Union Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our

consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have all been resolved except for item I-A-04, I-B-04 and I-C-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Union Community School District and other parties to whom Union Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Union Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

August 18, 2004

UNION COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipt listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

I-B-04 Student Activity Accounts - We noted during our audit that the District has an Activity account for Towels and an Office account.

Recommendation - The receipts and expenditures made from these accounts appear to be more appropriately accounted for in the General Fund. The District should review these accounts and make the necessary transfers.

Response - We will make the necessary changes.

Conclusion - Response accepted.

I-C-04 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - The District should forward any unclaimed property to the Great Iowa Treasure Hunt and remove the outstanding checks over one year.

Response - We will comply.

Conclusion - Response accepted.

I-D-04 Coaches Apparel in Student Activity Fund - The District purchased apparel for coaches in the Student Activity Fund.

Recommendation - The District should either charge the coaches for the clothing or add the dollar value amount for the clothing received to the W-2 of the coaches.

Response - We will research the situation and take corrective action.

Conclusion - Response accepted.

UNION COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part II: Other Findings Related to Statutory Reporting

II-A-04 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget - District disbursements for the year ended June 30, 2004 exceeded the amount budgeted in the other expenditures functional area.

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

Response - We will amend the budget if necessary in the future.

Conclusion - Response accepted.

II-C-04 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-D-04 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-E-04 Business Transactions - No business transactions between the District and District officials were noted.

Name, Title and Business Connection	Transaction Description	Amount
Louis Beck, Teacher Mother owns Breads by Ruth Beck	Supplies	\$760
Reta Callahan, Teacher Owns Callahan Catering	Speech Judges Meal	\$122
Angie Bechthold, Teacher Husband is a D-J	D-J Services	\$475

In accordance with the Attorney's General's opinion dated November 9, 1976, the above transactions with the spouse of Angie Bechthold and mother of Louis Beck do not appear to represent a conflict of interest.

In accordance with the Attorney's General's opinion dated July 2, 1990, the above transactions with Reta Callahan do not appear to represent a conflict of interest.

II-F-04 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-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - We will providing the minutes within the time period required, however, we are unable to control the publishing dates.

Conclusion - Response accepted.

II-H-04 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-I-04 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-04 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.