

UNITED COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

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United Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Larry Stolte	President	2003
Cheri Johnsen	Vice President	2005
Peggy Soderstrum	Board Member	2003
Ray Hansen	Board Member (Resigned)	2004
Kris Kokemiller	Board Member (Appointed)	2003
Pamela Clemons	Board Member	2005
Board of Education (After September 2003 Election)		
Cheri Johnsen	President	2005
Peggy Soderstrum	Vice President	2006
Kris Kokemiller	Board Member	2004
Janis Hansen	Board Member	2006
Pamela Clemons	Board Member	2005
School Officials		
Pauline Sampson	Superintendent	2004
Shelly Carter	District Secretary/Treasurer and Business Manager	2004
Ahlers Law Office	Attorney	2004

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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the United Community School District 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 opinions 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

As described in Note 8 to the financial statements, during the year ended June 30, 2004, United 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- for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule- Perspective Differences; and Interpretation No. 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 23, 2004 on our consideration of the United Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of

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laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 34 through 37 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 United 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 three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 4, 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 PC

NOLTE, CORNMAN & JOHNSON, P.C.

August 23, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

United 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 decreased from \$4,213,477 in fiscal 2003 to \$3,888,654 in fiscal 2004, while General Fund expenditures decreased from \$3,960,858 in fiscal 2003 to \$3,897,056 in fiscal 2004. This resulted in a decrease in the District's General Fund balance from of \$964,104 in fiscal 2003 to a balance of \$956,498 in fiscal 2004, a decrease of less than 1% from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in tuition, state, and federal grant revenue in fiscal 2004. The decrease in expenditures was due primarily to controlled spending. One reason the General Fund balance decreased is because the decrease in revenues was more than the District's General Fund decrease in expenditures for fiscal 2004.
- 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 \$12,916 in fiscal year 2003 to \$8,778 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 United 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 United 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 United 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.

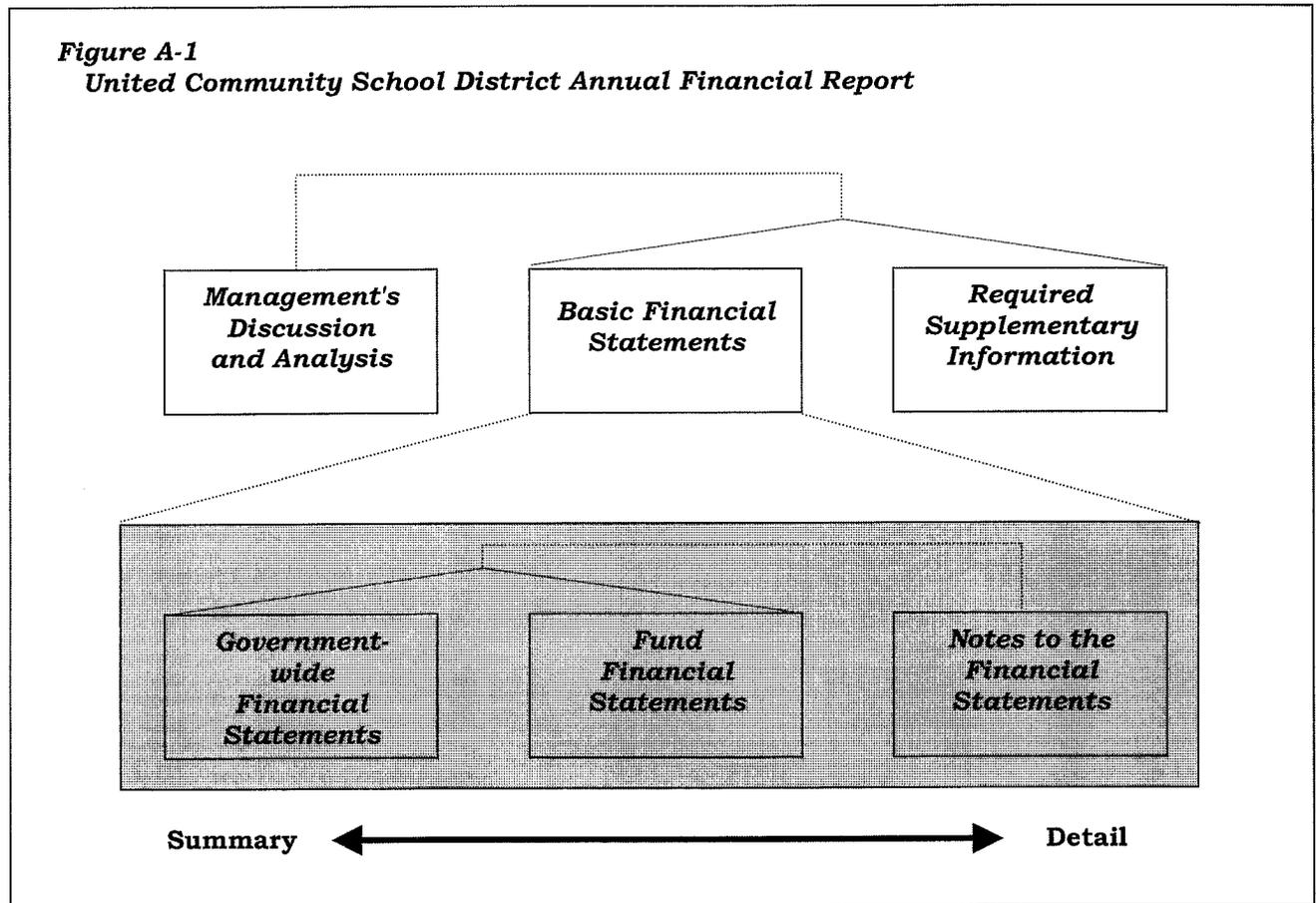


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2			
Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
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: food services and adult education
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 Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
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
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
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

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 two 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, 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 three enterprise fund, the School Nutrition, Daycare, and School Resale Fund.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Current and other assets	\$ 3,517,897	45,959	3,563,856
Capital assets	1,345,065	43,259	1,388,324
Total assets	<u>4,862,962</u>	<u>89,218</u>	<u>4,952,180</u>
Long-term obligations	36,613	0	36,613
Other liabilities	1,954,422	0	1,954,422
Total liabilities	<u>1,991,035</u>	<u>0</u>	<u>1,991,035</u>
Net assets:			
Invested in capital assets, net of related debt	1,345,065	43,259	1,388,324
Restricted	524,525	0	524,525
Unrestricted	1,002,337	45,959	1,048,296
Total net assets	<u>\$ 2,871,927</u>	<u>89,218</u>	<u>2,961,145</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 2004	Business-type Activities 2004	Total School District 2004
Revenues:			
Program revenues:			
Charges for services	\$ 1,043,478	93,447	1,136,925
Operating grants and contributions and restricted interest	323,505	54,110	377,615
General revenues:			
Local tax	2,161,300	0	2,161,300
Unrestricted state grants	761,869	0	761,869
Other	11,650	297	11,947
Total revenues	<u>4,301,802</u>	<u>147,854</u>	<u>4,449,656</u>
Program expenses:			
Governmental activities:			
Instructional	2,986,487	0	2,986,487
Support services	966,280	0	966,280
Non-instructional programs	27,733	144,647	172,380
Other expenses	262,770	0	262,770
Total expenses	<u>4,243,270</u>	<u>144,647</u>	<u>4,387,917</u>
Changes in net assets	<u>\$ 58,532</u>	<u>3,207</u>	<u>61,739</u>

Property tax and unrestricted state grants account for 68% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 93% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$4,301,802 and expenses were \$4,243,270. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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	\$ 2,986,487	1,740,652
Support services	966,280	963,688
Non-instructional	27,733	27,733
Other expenses	262,770	144,214
Totals	<u>\$ 4,243,270</u>	<u>2,876,287</u>

- The cost financed by users of the District's programs was \$1,043,478.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$323,505.

-
- The net cost of governmental activities was financed with \$2,161,300 in local tax, \$761,869 in unrestricted state grants, and \$11,650 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$147,854 and expenses were \$144,647. The District's business-type activities include the School Nutrition, Daycare, and School Resale 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 United Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,480,404, above last year's ending fund balances of a \$1,352,750. However, the primary reason for the increase was the increase of revenues in the PPEL Fund.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors. Reduction in tax levy during the year in tax and grants resulted in a decrease in revenues. However, the decrease in expenditures was more than offset by the District's decrease in General Fund revenues ensuring the financial position of the District decrease.
- The Management, and Activity Fund combined balance decreased from \$243,219 in 2003, to \$226,103 in 2004, due to the decrease in revenues in both funds.
- The Physical Plant and Equipment Levy (PPEL) fund balance increased from \$155,427 to \$233,283, due to an increase in local tax and a decrease in total expenditures for the year.
- The District started a Capital Projects fund during the current year, at year end it had a balance of \$64,520.

Proprietary Fund Highlights

- The School Nutrition Fund net assets decreased from \$66,508 at June 30, 2003 to \$62,451 at June 30, 2004, representing a decrease of approximately 6%. For fiscal 2004, the District had decreases in sales, resulting in decreased revenues.
- The School Resale Fund net assets decreases from \$9,514 at June 30, 2003 to \$9,288 at June 30, 2004, representing a decrease of approximately 2%.
- The Daycare Fund net assets increased from \$9,989 at June 30, 2004 to \$17,479 at June 30, 2004, representing an increase of approximately 75%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$496,370 less than budgeted revenues, a variance of 11%. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

Total expenditures were less than budgeted, 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.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$1.4 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) This amount represents a net decrease of 4.5% from last year. More detailed information about capital assets is available in Note 3 to the financial statements. Depreciation expense for the year was \$154,614.

The original cost of the District's capital assets was \$3.4 million. Governmental funds account for \$3.3 million with the remainder of \$0.1 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 \$344,817 at June 30, 2004, compared to \$428,026 reported at June 30, 2003. This decrease resulted from the current year depreciation expense.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Land	\$ 30,821	0	30,821
Buildings	364,643	0	364,643
Improvements other than buildings	604,784	0	604,784
Machinery and equipment	344,817	43,259	388,076
Total	\$ 1,345,065	43,259	1,388,324

Long-Term Debt

At June 30, 2004, the District had long-term debt outstanding of \$36,613 in early retirement, and accrued comps. This represents a increase of approximately 14.8% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 4 to the financial statements.

The District had total outstanding compensated absences of \$4,390 at June 30, 2004.

The District also had total outstanding early retirement payable of \$32,223 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
Early retirement	\$ 32,223	31,879	1.1%
Compensated absences	4,390	0	100.0%
Total	<u>\$ 36,613</u>	<u>31,879</u>	<u>14.8%</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:

- Although the District has experienced declining enrollment for a few years, the District expects a slight increase in enrollment.
- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten-year period beginning in fiscal year 2005.
- 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.

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 Shelly Carter, District Board Secretary, United Community School District, 1284 U Avenue, Boone, Iowa, 50036.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 1,194,175	43,629	1,237,804
Receivables:			
Property tax:			
Delinquent	31,205	0	31,205
Succeeding year	1,836,723	0	1,836,723
Income surtax	83,071	0	83,071
Accounts	364,002	25	364,027
Due from other governments	8,721	0	8,721
Inventories	0	2,305	2,305
Capital assets, net of accumulated depreciation(Note 3)	1,345,065	43,259	1,388,324
TOTAL ASSETS	4,862,962	89,218	4,952,180
LIABILITIES			
Accounts payable	36,341	0	36,341
Salaries and benefits payable	81,358	0	81,358
Deferred revenue:			
Succeeding year property tax	1,836,723	0	1,836,723
Long-term liabilities(Note 4):			
Portion due within one year:			
Compensated absences	4,390	0	4,390
Early retirement	4,774	0	4,774
Portion due after one year:			
Early retirement	27,449	0	27,449
TOTAL LIABILITIES	1,991,035	0	1,991,035
NET ASSETS			
Investment in capital assets, net of related debt	1,345,065	43,259	1,388,324
Restricted for:			
Teacher quality	79	0	79
Physical plant & equipment levy	233,283	0	233,283
Management levy	216,389	0	216,389
Capital projects	64,520	0	64,520
Other special revenue purposes	9,714	0	9,714
Unrestricted	1,002,877	45,959	1,048,836
TOTAL NET ASSETS	\$ 2,871,927	89,218	2,961,145

SEE NOTES TO FINANCIAL STATEMENTS.

UNITED COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Governmental activities:			
Instruction:			
Regular instruction	\$ 2,419,633	996,123	204,536
Special instruction	543,172	9,904	0
Other instruction	23,682	35,272	0
	<u>2,986,487</u>	<u>1,041,299</u>	<u>204,536</u>
Support services:			
Student services	48,855	0	0
Instructional staff services	73,045	0	0
Administration services	353,997	0	0
Operation and maintenance of plant services	229,599	0	0
Transportation services	260,784	2,179	413
	<u>966,280</u>	<u>2,179</u>	<u>413</u>
Non-instructional:			
Food service operation	23,617	0	0
Community service and educational operation	4,116	0	0
	<u>27,733</u>	<u>0</u>	<u>0</u>
Other expenditures:			
Facilities acquisitions	78,209	0	0
AEA flowthrough	118,556	0	118,556
Depreciation(unallocated)*	66,005	0	0
	<u>262,770</u>	<u>0</u>	<u>118,556</u>
Total governmental activities	4,243,270	1,043,478	323,505
Business-Type activities:			
Non-instructional programs:			
Nutrition services	124,695	66,407	54,110
Daycare	15,375	22,764	0
School resale	4,577	4,276	0
Total business-type activities	144,647	93,447	54,110
Total	\$ 4,387,917	1,136,925	377,615

General Revenues:

Property tax levied for:
 General purposes
 Capital outlay
 Local option sales and services tax
 Unrestricted state grants
 Unrestricted investment earnings

Total general revenues

Changes in net assets

Net assets beginning of year, as restated Note 8

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
(1,218,974)	0	(1,218,974)
(533,268)	0	(533,268)
11,590	0	11,590
(1,740,652)	0	(1,740,652)
(48,855)	0	(48,855)
(73,045)	0	(73,045)
(353,997)	0	(353,997)
(229,599)	0	(229,599)
(258,192)	0	(258,192)
(963,688)	0	(963,688)
(23,617)	0	(23,617)
(4,116)	0	(4,116)
(27,733)	0	(27,733)
(78,209)	0	(78,209)
0	0	0
(66,005)	0	(66,005)
(144,214)	0	(144,214)
(2,876,287)	0	(2,876,287)
0	(4,178)	(4,178)
0	7,389	7,389
0	(301)	(301)
0	2,910	2,910
(2,876,287)	2,910	(2,873,377)
\$ 1,797,055	0	1,797,055
293,341	0	293,341
70,904	0	70,904
761,869	0	761,869
11,650	297	11,947
2,934,819	297	2,935,116
58,532	3,207	61,739
2,813,395	86,011	2,899,406
\$ 2,871,927	89,218	2,961,145

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

	General	Special	Special	Other	Total
		Revenue - PPEL Fund	Revenue - Management Fund	Governmental Funds	
ASSETS					
Cash and pooled investments	\$ 684,926	231,023	216,027	62,199	1,194,175
Receivables:					
Property tax					
Delinquent	16,008	2,800	362	12,035	31,205
Succeeding year	1,551,306	246,917	38,500	0	1,836,723
Income surtax	83,071	0	0	0	83,071
Accounts	364,002	0	0	0	364,002
Due from other governments	8,721	0	0	0	8,721
TOTAL ASSETS	\$ 2,708,034	480,740	254,889	74,234	3,517,897
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 35,801	540	0	0	36,341
Salaries and benefits payable	81,358	0	0	0	81,358
Deferred revenue:					
Succeeding year property tax	1,551,306	246,917	38,500	0	1,836,723
Income surtax	83,071	0	0	0	83,071
Total liabilities	1,751,536	247,457	38,500	0	2,037,493
Fund balances:					
Reserved for:					
Teacher Quality	79	0	0	0	79
Unreserved:					
Designated for special purpose	9,161	0	0	0	9,161
Undesignated	947,258	233,283	216,389	74,234	1,471,164
Total fund balances	956,498	233,283	216,389	74,234	1,480,404
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,708,034	480,740	254,889	74,234	3,517,897

SEE NOTES TO FINANCIAL STATEMENTS.

UNITED 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)	\$	1,480,404
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.		1,345,065
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		83,071
Long-term liabilities, including compensated absences, and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(36,613)
Net assets of governmental activites (page 14)	\$	<u>2,871,927</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Special Revenue - PEEL Fund	Special Revenue - Management Fund	Other Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 1,759,174	293,341	37,937	0	2,090,452
ICSST	0	0	0	70,904	70,904
Tuition	1,006,027	0	0	0	1,006,027
Other	38,435	912	1,821	7,137	48,305
State sources	990,481	315	41	0	990,837
Federal sources	94,537	0	0	0	94,537
Total revenues	3,888,654	294,568	39,799	78,041	4,301,062
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	2,377,029	0	0	0	2,377,029
Special instruction	543,172	0	0	0	543,172
Other instruction	0	0	14,866	6,645	21,511
	2,920,201	0	14,866	6,645	2,941,712
Support services:					
Student services	48,430	0	425	0	48,855
Instructional staff services	72,137	0	592	0	72,729
Administration services	344,261	0	6,037	0	350,298
Operation and maintenance of plant services	215,793	0	10,473	0	226,266
Transportation services	152,536	60,071	12,357	0	224,964
	833,157	60,071	29,884	0	923,112
Non-instructional:					
Food service operation	21,026	0	2,591	0	23,617
Community service and educational operations	4,116	0	0	0	4,116
	25,142	0	2,591	0	27,733
Other expenditures:					
Facilities acquisitions	0	156,641	0	6,450	163,091
AEA flowthrough	118,556	0	0	0	118,556
	118,556	156,641	0	6,450	281,647
Total expenditures	3,897,056	216,712	47,341	13,095	4,174,204
Excess(deficiency) of revenues over(under) expenditures	(8,402)	77,856	(7,542)	64,946	126,858
Other financing sources:					
Sale of equipment and materials	796	0	0	0	796
Total other financing sources	796	0	0	0	796
Net change in fund balances	(7,606)	77,856	(7,542)	64,946	127,654
Fund balance beginning of year	964,104	155,427	223,931	9,288	1,352,750
Fund balance end of year	\$ 956,498	233,283	216,389	74,234	1,480,404

SEE NOTES TO FINANCIAL STATEMENTS.

UNITED 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) \$ 127,654

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 84,882	
Depreciation expense	(149,214)	(64,332)

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 fund.

Early retirement	344	
Compensated absences	4,390	(4,734)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. (56)

Changes in net assets of governmental activities (page 16) \$ 58,532

SEE NOTES TO FINANCIAL STATEMENTS.

UNITED COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2004

	School Nutrition	School Resale	Daycare	Total
ASSETS				
Cash and cash equivalents	\$ 16,874	9,288	17,467	43,629
Accounts receivable	13	0	12	25
Inventories	2,305	0	0	2,305
Capital assets, net of accumulated depreciation	43,259	0	0	43,259
TOTAL ASSETS	62,451	9,288	17,479	89,218
LIABILITIES	\$ 0	0	0	0
NET ASSETS				
Invested in capital assets, net of related debt	43,259	0	0	43,259
Unrestricted	19,192	9,288	17,479	45,959
TOTAL NET ASSETS	\$ 62,451	9,288	17,479	89,218

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition	School Resale	Daycare	Total
OPERATING REVENUE:				
Local sources:				
Other local sources:				
Sale of lunches and breakfasts:				
Students	\$ 56,994	0	0	56,994
Adults	3,699	0	0	3,699
A la carte	1,771	0	0	1,771
Miscellaneous	3,943	4,276	22,764	30,983
TOTAL OPERATING REVENUES	66,407	4,276	22,764	93,447
OPERATING EXPENSES:				
Non-instruction:				
Salaries	47,423	0	11,815	59,238
Benefits	23,287	0	1,627	24,914
Supplies	48,585	4,577	1,933	55,095
Depreciation	5,400	0	0	5,400
TOTAL OPERATING EXPENSES	124,695	4,577	15,375	144,647
OPERATING INCOME (LOSS)	(58,288)	(301)	7,389	(51,200)
NON-OPERATING REVENUES:				
Interest	121	75	101	297
State lunch and breakfast program claims	1,709	0	0	1,709
National School Lunch Program	41,249	0	0	41,249
Federal food commodities received	11,152	0	0	11,152
TOTAL NON-OPERATING REVENUES	54,231	75	101	54,407
Net income(loss)	(4,057)	(226)	7,490	3,207
Net assets at beginning of year, as restated (Note 8)	66,508	9,514	9,989	86,011
Net assets end of year	\$ 62,451	9,288	17,479	89,218

SEE NOTES TO FINANCIAL STATEMENTS.

UNITED COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	School Nutrition	School Resale	Daycare	Total
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 62,451	0	0	62,451
Cash received from miscellaneous operating activities	3,943	4,276	25,501	33,720
Cash payments to employees for services	(70,710)	0	(15,676)	(86,386)
Cash payments to suppliers for goods or services	(38,111)	(4,577)	(1,933)	(44,621)
Net cash provided by (used in) operating activities	(42,427)	(301)	7,892	(34,836)
Cash flows from non-capital financing activities:				
State grants received	1,709	0	0	1,709
Federal grants received	41,249	0	0	41,249
Net cash provided by non-capital financing activities	42,958	0	0	42,958
Cash flows from investing activities:				
Interest on investments	121	75	101	297
Net cash provided by investing activities	121	75	101	297
Cash flows from capital financing activities:				
Purchase of assets	(3,927)	0	0	(3,927)
Net cash used in financing activities	(3,927)	0	0	(3,927)
Net increase (decrease) in cash and cash equivalents	(3,275)	(226)	7,993	4,492
Cash and cash equivalents at beginning of year	20,149	9,514	9,474	39,137
Cash and cash equivalents at end of year	\$ 16,874	9,288	17,467	43,629
Reconciliation of operating loss to net cash provided by (used in) operating activities:				
Operating gain (loss)	\$ (58,288)	(301)	7,389	(51,200)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Commodities consumed	11,152	0	0	11,152
Depreciation	5,400	0	0	5,400
Increase in inventories	(678)	0	0	(678)
Decrease (Increase) in accounts receivable	(13)	0	2,737	2,724
Decrease in salaries and benefits payable	0	0	(2,234)	(2,234)
Net cash provided by (used in) operating activities	\$ (42,427)	(301)	7,892	(34,836)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:				
Current assets:				
Cash and pooled investments	\$ 16,874	9,288	17,467	43,629
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:				
During the year ended June 30, 2004, the District received Federal commodities valued at 11,152.				

SEE NOTES TO FINANCIAL STATEMENTS.

UNITED COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(1) **Summary of Significant Accounting Policies**

The United Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through sixth and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Boone, Iowa, and the predominate agricultural territory in Story and Boone 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, United Community School District has included all funds, organizations, account groups, 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 United 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 do 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 Story and Boone County Assessors' Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference

reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation 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 - Management Fund is utilized to account for the payment of property insurance and early retirement benefits.

The Special Revenue - Physical Plant and Equipment Levy(PPEL) Fund is used to account for resources used in building improvements and equipment purchases.

The District's proprietary funds are the School Nutrition Fund, Daycare Fund, and School Resale Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the 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	\$ 1,000
Buildings	1,000
Improvements other than buildings	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

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

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

Compensated absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

Fund Equity - In the governmental fund financial statements, 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, no disbursements 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 no investments as of June 30, 2004.

(3) **Capital Assets**

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

	Balance Beginning of Year, as restated (Note 8)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 30,821	0	0	30,821
Total capital assets not being depreciated	30,821	0	0	30,821
Capital assets being depreciated:				
Buildings	1,155,050	0	0	1,155,050
Land improvements	447,871	36,936	0	484,807
Building improvements	339,580	47,946	0	387,526
Machinery and equipment	1,285,741	0	0	1,285,741
Total capital assets being depreciated	3,228,242	84,882	0	3,313,124
Less accumulated depreciation for:				
Buildings	767,306	23,101	0	790,407
Land improvements	170,583	23,528	0	194,111
Building improvements	54,062	19,376	0	73,438
Machinery and equipment	857,715	83,209	0	940,924
Total accumulated depreciation	1,849,666	149,214	0	1,998,880
Total capital assets being depreciated, net	1,378,576	(64,332)	0	1,314,244
Governmental activities capital assets, net \$	1,409,397	(64,332)	0	1,345,065

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 61,401	3,927	525	64,803
Less accumulated depreciation	16,669	5,400	525	21,544
Business-type activities capital assets, net \$	44,732	(1,473)	0	43,259

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 42,604
Other		2,171
Support services:		
Instructional staff services		316
Operation and maintenance of plant services		3,243
Transportation		34,875
		83,209
Unallocated depreciation		66,005
Total governmental activities depreciation expense		\$ 149,214
Business-type activities:		
Food services		\$ 5,400

(4) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Compensated absences	\$ 0	4,390	0	4,390	4,390
Early retirement	31,879	4,457	4,113	32,223	4,774
Total	\$ 31,879	8,847	4,113	36,613	9,164

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed ten years of service as a full-time employee. Employees must complete an application, which is subject to approval by the Board of Education. Early retirement incentives for each eligible employee will be based on the employee salary schedule in effect the last year of the employees employment with the District. The employee will receive 30 percent of the current years salary less phase money, supplemental pay or extended contract pay. Early retirement expenditures for the year ended June 30, 2004 totaled \$4,113.

(5) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$68,092, \$80,236, and \$82,448 respectively, equal to the required contributions for each year.

(6) Risk Management

United Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: dental, life and long-term disability.

Each member's contributions to ISEBA funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as

expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$173,621.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2003, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

United Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) 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 \$118,556 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(8) Accounting Change and Restatements

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

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No.38, Certain Financial Statement Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2004. The statement create new basic financial statements for reporting the District's financial activities. The financial statements now

include government-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 separate the District's programs between governmental and business type activities. The beginning net assets 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 \$3,362,109 were restated to \$3,259,063. The restatement primarily removed assets below the District's capitalization threshold.

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

	Fund				Total
	General	Physical Plant and Equipment Levy	Manage- ment	Other Governmental Funds	
Net assets, June 30, 2003, as previously reported	\$ 964,104	155,427	223,931	9,288	1,352,750
GASB Interpretation 6 adjustments	0	0	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	\$ 964,104	155,427	223,931	9,288	1,352,750
GASB 34 adjustments:					
Capital assets, net of accumulated depreciation of \$1,849,666					1,409,397
Income surtax					83,127
Long-term liabilities:					
Early retirement					(31,879)
Net assets July 1, 2003, as restated					\$ 2,813,395

	Fund	
	School	Nutrition
Net assets, June 30, 2003, as previously reported	\$ 15,906	
Capital contributions	50,602	
Net assets, July 1, 2003, as restated for proprietary funds	\$ 66,508	

REQUIRED SUPPLEMENTAL INFORMATION

UNITED 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	\$ 2,870,928	96,468
State sources	987,830	1,709
Federal sources	88,126	52,401
Total receipts	<u>3,946,884</u>	<u>150,578</u>
Disbursements:		
Instruction	2,844,979	0
Support services	920,918	0
Non-instructional programs	27,733	146,086
Other expenditures	281,107	0
Total disbursements	<u>4,074,737</u>	<u>146,086</u>
Excess(deficiency) of receipts over(under) disbursements	(127,853)	4,492
Other financing sources, net	796	0
Excess(deficiency) of receipts and other financing sources over(under) disbursements	(127,057)	4,492
Balance beginning of year	1,321,232	39,137
Balance end of year	<u>\$ 1,194,175</u>	<u>43,629</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
2,967,396	3,407,000	3,407,000	(439,604)
989,539	1,066,886	1,066,886	(77,347)
140,527	119,946	119,946	20,581
4,097,462	4,593,832	4,593,832	(496,370)
2,844,979	2,980,190	2,980,190	135,211
920,918	1,070,110	1,070,110	149,192
173,819	240,931	240,931	67,112
281,107	339,397	339,397	58,290
4,220,823	4,630,628	4,630,628	409,805
(123,361)	(36,796)	(36,796)	(86,565)
796	3,000	3,000	2,204
(122,565)	(33,796)	(33,796)	(84,361)
1,360,369	954,598	954,598	405,771
1,237,804	920,802	920,802	321,410

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

	Governmental Fund Types		
	Cash Basis	Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 3,946,884	354,178	4,301,062
Expenses	4,074,737	99,467	4,174,204
Net	(127,853)	254,711	126,858
Other financing sources, net	796	0	796
Beginning fund balances	1,321,232	31,518	1,352,750
Ending fund balances	\$ 1,194,175	286,229	1,480,404

	Proprietary Fund Type		
	Cash Basis	Enterprise Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 150,578	(2,724)	147,854
Expenses	146,086	(1,439)	144,647
Net	4,492	(1,285)	3,207
Beginning retained earnings	39,137	46,874	86,011
Ending retained earnings	\$ 43,629	45,589	89,218

UNITED 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.

OTHER SUPPLEMENTAL INFORMATION

UNITED COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2004

	Special Revenue- Student Activity	Capital Projects	Total Nonmajor Governmental Funds
ASSETS			
Cash and pooled investments	\$ 9,714	52,485	62,199
Receivables:			
Local option sales and service tax:			
Current year delinquent	0	12,035	12,035
TOTAL ASSETS	\$ 9,714	64,520	74,234
LIABILITIES AND FUND EQUITY			
Liabilities:			
	\$ 0	0	0
Fund equity:			
Fund balances:			
Unreserved:			
Undesignated	9,714	64,520	74,234
Total fund balances	9,714	64,520	74,234
TOTAL LIABILITIES AND FUND EQUITY	\$ 9,714	64,520	74,234

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue-	Capital Projects	Expendable Trust	Total Nonmajor Governmental Funds
REVENUES:				
Local sources:				
LOSST	\$ 0	70,904	0	70,904
Other	6,604	66	467	7,137
TOTAL REVENUES	6,604	70,970	467	78,041
EXPENDITURES:				
Current:				
Instruction:				
Other instruction	6,178	0	467	6,645
	6,178	0	467	6,645
Other expenditures:				
Facility acquisitions	0	6,450	0	6,450
	0	6,450	0	6,450
TOTAL EXPENDITURES	6,178	6,450	467	13,095
Excess of revenues over expenditures	426	64,520	0	64,946
Fund balance beginning of year	9,288	0	0	9,288
Fund balance end of year	\$ 9,714	64,520	0	74,234

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNITED 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
Instructional music	\$ (53)	966	798	115
Interest	5,530	73	132	5,471
Pop	2,948	1,678	1,256	3,370
Elementary library	863	3,887	3,992	758
Total	\$ 9,288	6,604	6,178	9,714

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNITED 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	\$ 2,161,356	2,160,465	2,233,679	2,103,853
Tuition	1,006,027	1,063,789	1,141,977	1,131,566
Other	48,305	85,986	107,275	72,506
State sources	990,837	1,190,517	1,407,697	1,381,116
Federal sources	94,537	83,730	33,324	22,919
Total	\$ 4,301,062	4,584,487	4,923,952	4,711,960
Expenditures:				
Instruction:				
Regular instruction	\$ 2,377,029	2,467,629	2,625,778	2,555,086
Special instruction	543,172	522,108	617,952	613,865
Other instruction	22,003	6,699	3,611	5,379
Support services:				
Student services	48,855	53,800	52,475	49,800
Instructional staff services	72,729	67,305	79,582	75,503
Administration services	350,298	381,523	349,923	322,689
Operation and maintenance of plant services	226,266	199,724	197,976	232,845
Transportation services	224,964	213,128	233,518	242,922
Non-instructional:				
Food service operations	23,617	31,079	33,245	30,834
Community service and educational operations	4,116	1,770	1,263	1,258
Other expenditures:				
Facilities acquisitions	163,091	216,223	163,308	171,411
AEA flow-through	118,556	128,138	130,264	127,156
Total	\$ 4,174,696	4,289,126	4,488,895	4,428,748

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
United Community School District:

We have audited the financial statements of United Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 23, 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 United 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 an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

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 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 II-K-04.

Internal Control Over Financial Reporting

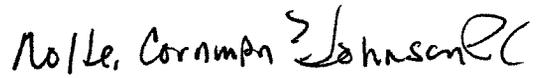
In planning and performing our audit, we considered United Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over 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 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 I-A-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 United Community School District and other parties to whom United 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 United 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 23, 2004

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

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

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. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize 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 Bank Reconciliations - We noted during our audit that the District does not reconcile the bank statements of the Nutrition Fund to the general ledger on a timely basis.

Recommendation - The District should reconcile bank statement balances to financial statement bank balances on a monthly basis.

Response - We will comply.

Conclusion - Response accepted.

I-C-04 Interest in Student Activity Fund - We noted during our audit that the District had an interest account in the Student Activity Fund.

Recommendation - The interest earned each year should be allocated at least on an annual basis to the individual activity accounts.

Response - We will make the necessary changes.

Conclusion - Response accepted

UNITED 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, did not exceed the amount budgeted.
- 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.
- 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.
- 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.
- II-K-04 PPEL Expenditures - We noted during our audit that the District had expenditures in the PPEL Fund which do not appear to be in compliance with Chapter 298.3 of the Code of Iowa.

Recommendation -The District should have paid the expenditures out of the General Fund rather than the PPEL Fund. The District should transfer \$10,398.74 from the General Fund to the PPEL fund for the expenditures which would be more appropriately in the General Fund.

Response - We will comply.

Conclusion - Response accepted.