

UNITED COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS  
JUNE 30, 2012

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United Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
<b>(Before September 2011 Election)</b>		
Kathy Toms	President	2011
Matt Swanson	Vice President	2011
Darla Hayworth	Board Member	2011
Marvin Davis	Board Member	2013
Ron Miller	Board Member	2013
<b>(After September 2011 Election)</b>		
Kathy Toms	President	2015
Ron Miller	Vice President	2013
Leonard Larsen	Board Member	2015
Marvin Davis	Board Member	2013
Valerie Brewer	Board Member	2015
<b>School Officials</b>		
Sara Keehn	Superintendent	2012
Jacob Ballard	Board Secretary/Treasurer	2012
Ahlers & Cooney, P.C.	Attorney	2012

UNITED COMMUNITY SCHOOL DISTRICT

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

**Certified Public Accountants**

**(a professional corporation)**

**117 West 3rd Street North, Newton, Iowa 50208-3040**

**Telephone (641) 792-1910**

## **INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the United Community School District, Boone, Iowa as of and for the year ended June 30, 2012, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of United Community School District at June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 22, 2013 on our consideration of United Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 44 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting

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Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. Generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures does not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions 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 the eight years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



NOLTE, CORNMAN & JOHNSON, P.C.

January 22, 2013

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

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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, 2012. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2012 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$3,663,551 in fiscal 2011 to \$4,139,846 in fiscal 2012, while General Fund expenditures decreased from \$4,049,986 in fiscal 2011 to \$3,759,664 in fiscal 2012. This resulted in an increase in the District's General Fund balance from a deficit \$149,260 in fiscal 2011 to a \$230,922 in fiscal 2012, a 254.71% increase from the prior year.
- The increase in General Fund revenues was attributable to increases in local and state source revenues in fiscal 2012. The decrease in expenditures was due primarily to a decrease in negotiated salaries and benefits.

### **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 District.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year as well presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the non-major governmental funds.

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

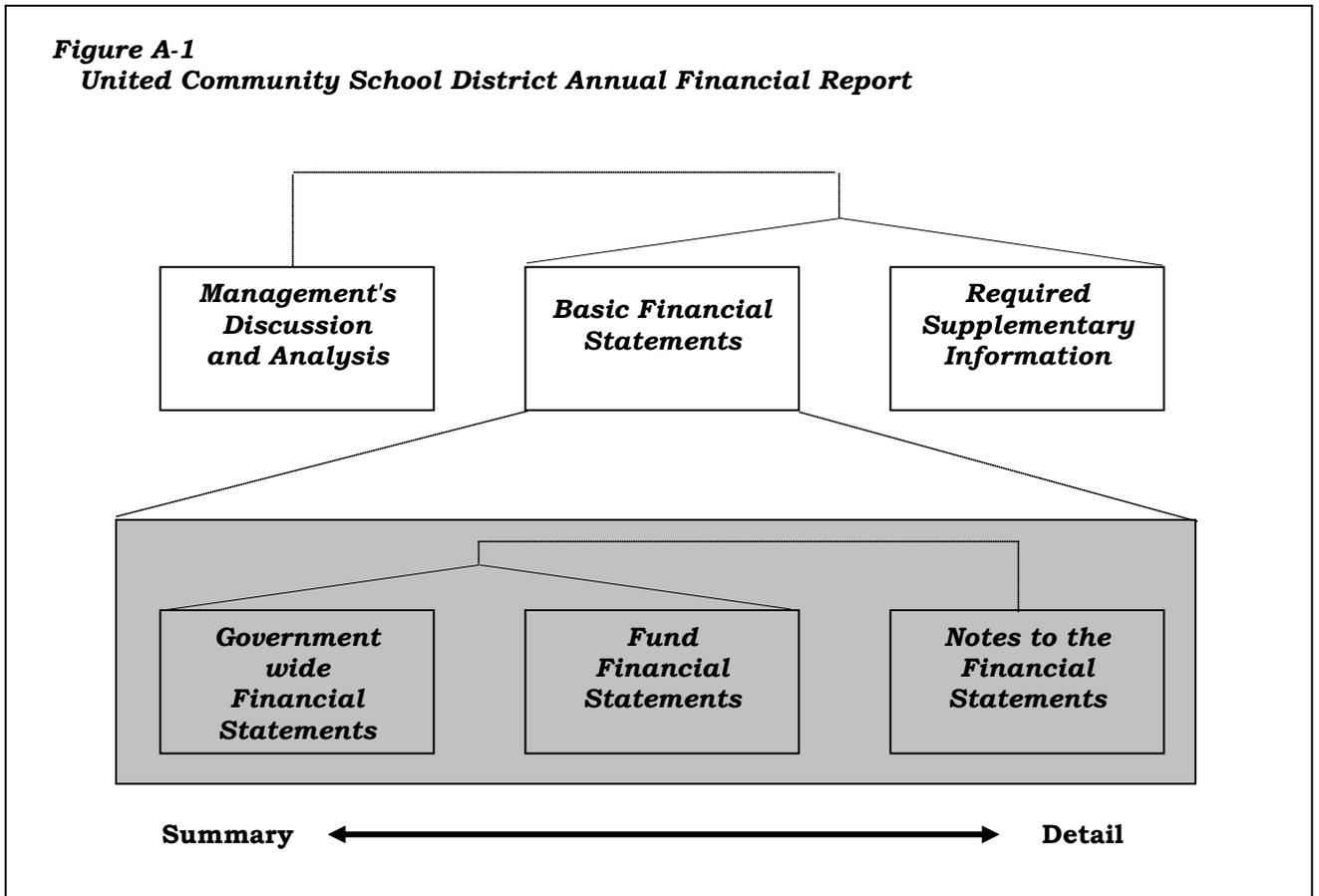


Figure A-2 below summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

**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"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

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

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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, the Debt Service Fund and the 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 funds, the School Nutrition Fund, the School Resale Fund and the Daycare Fund.

The required financial statements for the proprietary funds include a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows.

- 3) Fiduciary Funds: The District is the trustee, or fiduciary, for assets that belong to others. This would include the Agency Fund.
- Agency Fund - These are funds for which the District administers and accounts for certain revenues collected for the District's non-public purpose 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 Government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets.

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 total net assets at June 30, 2012 compared to June 30, 2011.

Figure A-3 Condensed Statement of Net Assets							
	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Current and other assets	\$ 5,716,241	5,462,932	234,435	193,297	5,950,676	5,656,229	5.21%
Capital assets	2,185,369	2,137,254	25,567	33,998	2,210,936	2,171,252	1.83%
Total assets	7,901,610	7,600,186	260,002	227,295	8,161,612	7,827,481	4.27%
Long-term obligations	199,634	227,526	5,789	3,471	205,423	230,997	-11.07%
Other liabilities	3,304,293	3,542,168	42,435	18,947	3,346,728	3,561,115	-6.02%
Total liabilities	3,503,927	3,769,694	48,224	22,418	3,552,151	3,792,112	-6.33%
Net assets:							
Invested in capital assets, net of related debt	2,160,351	2,088,224	25,567	33,998	2,185,918	2,122,222	3.00%
Restricted	2,150,509	2,071,776	0	0	2,150,509	2,071,776	3.80%
Unrestricted	86,823	(329,508)	186,211	170,879	273,034	(158,629)	272.12%
Total net assets	\$ 4,397,683	3,830,492	211,778	204,877	4,609,461	4,035,369	14.23%

The District's combined net assets increased by 14.23%, or \$574,092 from the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, intangibles, buildings and equipment), less the related debt. The debt related to the invested in capital assets are liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased by \$78,733, or 3.80% over the prior year. The majority of the increase in restricted net assets was due to the District's increase in the fund balance of the Statewide Sales, Services and Use Tax Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$431,663, or 272.12%. The majority of the increase in unrestricted net assets was a due to the increase in fund balance of the General Fund.

Figure A-4 shows the changes in net assets for the years ended June 30, 2012 compared to June 30, 2011.

Figure A-4							
Changes in Net Assets							
	Governmental		Business-Type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Revenues:							
Program revenues:							
Charges for services	\$ 521,453	446,745	238,083	237,381	759,536	684,126	11.02%
Operating grants, contributions and restricted interest	324,644	527,470	53,012	59,314	377,656	586,784	-35.64%
Capital grants, contributions and restricted interest	27,081	0	0	0	27,081	0	100.00%
General revenues and transfers:							
Property tax	2,559,525	2,284,481	0	0	2,559,525	2,284,481	12.04%
Income surtax	131,650	121,664	0	0	131,650	121,664	8.21%
Statewide sales, services and use tax	275,408	246,660	0	0	275,408	246,660	11.65%
Unrestricted state grants	978,230	559,433	0	0	978,230	559,433	74.86%
Nonspecific program federal grants	33,426	63,856	0	0	33,426	63,856	100.00%
Unrestricted interest revenue	748	3,507	13	162	761	3,669	-79.26%
Other	14,239	59,365	3,567	5,268	17,806	64,633	-72.45%
Transfers	0	(2,738)	0	2,738	0	0	0.00%
Total revenues	4,866,404	4,310,443	294,675	304,863	5,161,079	4,615,306	11.83%
Program expenses:							
Governmental activities:							
Instructional	2,829,221	2,913,384	106,742	67,186	2,935,963	2,980,570	-1.50%
Support services	1,188,234	1,241,735	0	0	1,188,234	1,241,735	-4.31%
Non-instructional programs	0	2,323	181,032	173,123	181,032	175,446	3.18%
Other expenses	281,758	267,210	0	0	281,758	267,210	5.44%
Total expenses	4,299,213	4,424,652	287,774	240,309	4,586,987	4,664,961	-1.67%
Change in net assets	567,191	(114,209)	6,901	64,554	574,092	(49,655)	1256%
Net assets beginning of year	3,830,492	3,944,701	204,877	140,323	4,035,369	4,085,024	-1.22%
Net assets end of year	\$ 4,397,683	3,830,492	211,778	204,877	4,609,461	4,035,369	14.23%

In fiscal 2012, property tax, unrestricted state grants, and operating grants, contributions, and restricted interest account for 79.37% of the revenue from governmental activities while charges for services and operating grants, contributions, and restricted interest account for 98.79% of the revenue from business type activities.

The District's total revenues were approximately \$5.16 million of which approximately \$4.87 million was for governmental activities and approximately \$0.29 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 11.83% increase in revenues and a 1.67% decrease in expenses. The decrease in expenses was related to the decrease in negotiated salaries and benefits.

The District makes a continual effort to be a good steward of public funds and maintains a philosophy of providing the best education possible, exploring every avenue available to fund the programs, while making certain to keep watch for services that could be merged with other programs. The District saw an overall greater increase in revenues than increase in expenditures, expenditures were less than revenues at year end, resulting in a financial increase at the end of the year.

### Governmental Activities

Revenues for governmental activities were \$4,866,404 and expenses were \$4,299,213 for the year ended June 30, 2012.

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, for the year ended June 30, 2012 compared to the year ended June 30, 2011.

	Total Cost of Services			Net Cost of Services		
	2012	2011	Change 2011-12	2012	2011	Change 2011-12
Instruction	\$ 2,829,221	2,913,384	-2.89%	2,105,176	2,074,095	1.50%
Support services	1,188,234	1,241,735	-4.31%	1,160,159	1,240,758	-6.50%
Non-instructional	0	2,323	100.00%	0	2,323	100.00%
Other expenses	281,758	267,210	5.44%	160,700	133,261	20.59%
Totals	<u>\$ 4,299,213</u>	<u>4,424,652</u>	<u>-2.84%</u>	<u>3,426,035</u>	<u>3,450,437</u>	<u>-0.71%</u>

For the year ended June 30, 2012:

- The cost financed by users of the District's programs was \$521,453.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$351,725.
- The net cost of governmental activities was financed with \$2,559,525 in property tax, \$131,650 in income surtax, \$275,408 in statewide sales, services and use tax, \$978,230 in unrestricted state grants, \$748 in unrestricted interest, and \$14,239 in other general revenues.

### Business type Activities

Revenues of the District's business type activities were \$294,675 and expenses were \$287,774. The District's business type activities include the School Nutrition Fund, the School Resale, and the Daycare Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and interest income and other general revenue.

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## **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 \$2,285,822, above last year's ending fund balances of \$1,793,087. The primary reason for the increase in combined fund balances in fiscal 2012 is due to the increase in General Fund balance.

### **Governmental Fund Highlights**

The District's General Fund financial position is the product of many factors:

- The General Fund balance increased from a deficit \$149,260 at June 30, 2011 to \$230,922 at June 30, 2012. Revenues increased by \$476,295 or 13.00%.
- The Capital Projects Fund balance increased from \$1,563,520 in fiscal 2011 to \$1,712,435 in fiscal 2012. The majority of this increase was due to an increase in the Statewide, Sales, Services and Use Tax Fund. The Statewide Sales, Services and Use Tax fund balance increased from \$722,295 in fiscal 2011 to \$869,690 in fiscal 2012. The increase in fund balance was due to an excess of revenues over expenditures as compared to the previous year. The Physical Plant and Equipment Levy fund balance increased from \$841,225 in fiscal 2011 to \$842,745 in fiscal 2012.

### **Proprietary Fund Highlights**

The District's stable Proprietary Funds financial position is the product of many factors:

- The Proprietary Fund net assets increased from \$204,877 at June 30, 2011 to \$211,778 at June 30, 2012, representing an increase of 3.37%.
- The District's Nutrition Fund balance decreased from \$41,153 at June 30, 2011 to \$21,969 at June 30, 2012, representing a decrease of 46.62%.
- The District's Day Care Fund increased from \$147,125 at June 30, 2011 to \$173,988 at June 30, 2012, representing an increase of 18.26%. An increase in revenues received from patrons of the Daycare coupled with decreased expenditures as compared to the previous year ensured the increase in fund balance.
- The District's School Resale Fund balance decreased from \$16,599 at June 30, 2011 to \$15,821 at June 30, 2012, representing a decrease of 4.69%.

## **BUDGETARY HIGHLIGHTS**

The District's revenues were \$993,594 less than budgeted revenues, a variance of 16.14%. The most significant variance resulted from the District receiving less in local source revenue 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.

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

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2012, the District had invested \$2,210,936 net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 1.83% from last year. Additional detailed information about the capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$238,104.

The original cost of the District's capital assets was \$5,672,879. Governmental funds account for \$5,562,378 with the remainder of \$110,501 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress had a \$367,863 balance at June 30, 2011 compared to \$0 reported at June 30, 2012. The decrease in construction in progress was attributable to the District finishing the renovation of the North and South Elementary School.

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Land	\$ 30,821	30,821	0	0	30,821	30,821	0.00%
Construction in progress	0	367,863	0	0	0	367,863	100.00%
Buildings and improvements	1,788,155	1,309,741	0	0	1,788,155	1,309,741	36.53%
Land improvements	158,001	184,240	0	0	158,001	184,240	-14.24%
Machinery and equipment	208,392	244,589	25,567	33,998	233,959	278,587	-16.02%
Total	\$ 2,185,369	2,137,254	25,567	33,998	2,210,936	2,171,252	1.83%

### Long-Term Debt

At June 30, 2012, the District had \$205,423 in long-term debt outstanding. This represents an decrease of 11.07% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had outstanding compensated absences at June 30, 2012 of \$16,412, payable from the General Fund.

The District had an outstanding computer lease payable from the Special Revenue, Physical Plant and Equipment Levy Fund of \$25,018 at June 30, 2012.

The District had net OPEB liability payable of \$163,993 at June 30, 2012, \$158,204 attributable to governmental activities and \$5,789 to business type activities.

Figure A-7  
Outstanding Long-Term Obligations

	Governmental Activities		Business type Activities		Total School District		Total Change
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	2011-12
Compensated absences	\$ 16,412	16,133	0	0	16,412	16,133	1.73%
Early retirement	0	67,513	0	0	0	67,513	-100.00%
Computer lease	25,018	49,030	0	0	25,018	49,030	-48.97%
Net OPEB obligation	158,204	94,850	5,789	3,471	163,993	98,321	66.79%
Total	\$ 199,634	227,526	5,789	3,471	205,423	230,997	-11.07%

## 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:

- On July 1, 2012, the IPERS increase to 8.67% will increase the United Community Schools employer benefits costs during fiscal 2013. An additional increase to 8.93% is anticipated for FY14.
- The District will be sharing the Superintendent and Principal position beginning in the 2011/12 year resulting in an approximate savings to the District of \$95,000.
- The continuing phase out of the budget guarantee is also an issue the District is dealing with.

## 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 Jacob Ballard, Board Secretary/Treasurer, United Community School District, 1284 U Avenue, Boone, Iowa, 50036.

BASIC FINANCIAL STATEMENTS

UNITED COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2012

	Governmental Activities	Business type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 2,397,907	232,095	2,630,002
Receivables:			
Property tax:			
Delinquent	13,963	0	13,963
Succeeding year	2,960,680	0	2,960,680
Income surtax	126,400	0	126,400
Accounts	1,326	284	1,610
Due from other funds	40,128	0	40,128
Due from other governments	175,837	0	175,837
Inventories	0	2,056	2,056
Capital assets, net of accumulated depreciation	2,185,369	25,567	2,210,936
<b>Total assets</b>	<b>7,901,610</b>	<b>260,002</b>	<b>8,161,612</b>
<b>Liabilities</b>			
Due to other funds	0	40,128	40,128
Due to other governments	5,749	0	5,749
Accounts payable	108,316	77	108,393
Salaries and benefits payable	229,036	0	229,036
Interest payable	274	0	274
Deferred revenue:			
Succeeding year property tax	2,960,680	0	2,960,680
Other	238	0	238
Unearned revenue	0	2,230	2,230
Long-term liabilities:			
Portion due within one year:			
Compensated absences	16,412	0	16,412
Computer lease	25,018	0	25,018
Portion due after one year:			
Net OPEB liability	158,204	5,789	163,993
<b>Total liabilities</b>	<b>3,503,927</b>	<b>48,224</b>	<b>3,552,151</b>
<b>Net Assets</b>			
Invested in capital assets	2,160,351	25,567	2,185,918
Restricted for:			
Categorical funding	95,609	0	95,609
Management levy purposes	341,615	0	341,615
Student activities	850	0	850
School infrastructure	869,690	0	869,690
Physical plant and equipment	842,745	0	842,745
Unrestricted	86,823	186,211	273,034
<b>Total net assets</b>	<b>\$ 4,397,683</b>	<b>211,778</b>	<b>4,609,461</b>

SEE NOTES TO FINANCIAL STATEMENTS

UNITED COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2012

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted	Capital Grants, Contributions and Restricted	Governmental Activities	Business Type Activities	Total
			Interest	Interest			
<b>Functions/Programs</b>							
<b>Governmental activities:</b>							
<b>Instruction:</b>							
Regular	\$ 2,107,117	399,600	30,724	0	(1,676,793)	0	(1,676,793)
Special	430,948	121,853	31,759	0	(277,336)	0	(277,336)
Other	291,156	0	140,109	0	(151,047)	0	(151,047)
	<u>2,829,221</u>	<u>521,453</u>	<u>202,592</u>	<u>0</u>	<u>(2,105,176)</u>	<u>0</u>	<u>(2,105,176)</u>
<b>Support services:</b>							
Student	96,097	0	0	0	(96,097)	0	(96,097)
Instructional staff	55,646	0	0	0	(55,646)	0	(55,646)
Administration	418,213	0	0	0	(418,213)	0	(418,213)
Operation and maintenance of plant	361,136	0	0	27,081	(334,055)	0	(334,055)
Transportation	257,142	0	994	0	(256,148)	0	(256,148)
	<u>1,188,234</u>	<u>0</u>	<u>994</u>	<u>27,081</u>	<u>(1,160,159)</u>	<u>0</u>	<u>(1,160,159)</u>
<b>Other expenses:</b>							
Long-term debt interest	2,919	0	0	0	(2,919)	0	(2,919)
AEA flowthrough	121,058	0	121,058	0	0	0	0
Depreciation(unallocated)*	157,781	0	0	0	(157,781)	0	(157,781)
	<u>281,758</u>	<u>0</u>	<u>121,058</u>	<u>0</u>	<u>(160,700)</u>	<u>0</u>	<u>(160,700)</u>
<b>Total governmental activities</b>	<b>4,299,213</b>	<b>521,453</b>	<b>324,644</b>	<b>27,081</b>	<b>(3,426,035)</b>	<b>0</b>	<b>(3,426,035)</b>
<b>Business type activities:</b>							
<b>Instruction:</b>							
Other	106,742	0	0	0	0	(106,742)	(106,742)
<b>Non-instructional programs:</b>							
Nutrition services	130,588	58,071	53,012	0	0	(19,505)	(19,505)
Daycare services	47,842	178,188	0	0	0	130,346	130,346
Resale activities	2,602	1,824	0	0	0	(778)	(778)
Total noninstructional programs	<u>181,032</u>	<u>238,083</u>	<u>53,012</u>	<u>0</u>	<u>0</u>	<u>110,063</u>	<u>110,063</u>
Total business type activities	<u>287,774</u>	<u>238,083</u>	<u>53,012</u>	<u>0</u>	<u>0</u>	<u>3,321</u>	<u>3,321</u>
<b>Total</b>	<b>\$ 4,586,987</b>	<b>759,536</b>	<b>377,656</b>	<b>27,081</b>	<b>(3,426,035)</b>	<b>3,321</b>	<b>(3,422,714)</b>
<b>General Revenues:</b>							
<b>Property tax levied for:</b>							
General purposes					\$ 2,183,295	0	2,183,295
Capital outlay					376,230	0	376,230
Income surtax					131,650	0	131,650
Statewide sales, services and use tax					275,408	0	275,408
Unrestricted state grants					978,230	0	978,230
Nonspecific program federal grants					33,426	0	33,426
Unrestricted investment earnings					748	13	761
Other					14,239	3,567	17,806
<b>Total general revenues</b>					<u>3,993,226</u>	<u>3,580</u>	<u>3,996,806</u>
Changes in net assets					567,191	6,901	574,092
Net assets beginning of year					<u>3,830,492</u>	<u>204,877</u>	<u>4,035,369</u>
Net assets end of year					<u>\$ 4,397,683</u>	<u>211,778</u>	<u>4,609,461</u>

SEE NOTES TO FINANCIAL STATEMENTS

UNITED COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>Assets</b>				
Cash and pooled investments	\$ 432,730	1,622,940	342,237	2,397,907
Receivables:				
Property tax:				
Delinquent	11,743	1,992	228	13,963
Succeeding year	2,549,105	370,076	41,499	2,960,680
Income surtax	126,400	0	0	126,400
Accounts	1,326	0	0	1,326
Due from other funds	40,128	7,000	0	47,128
Due from other governments	88,334	87,503	0	175,837
<b>Total assets</b>	<b>\$ 3,249,766</b>	<b>2,089,511</b>	<b>383,964</b>	<b>5,723,241</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Due to other governments	\$ 5,749	0	0	5,749
Due to other funds	0	7,000	0	7,000
Accounts payable	108,316	0	0	108,316
Salaries and benefits payable	229,036	0	0	229,036
Deferred revenue:				
Succeeding year property tax	2,549,105	370,076	41,499	2,960,680
Income surtax	126,400	0	0	126,400
Other	238	0	0	238
<b>Total liabilities</b>	<b>3,018,844</b>	<b>377,076</b>	<b>41,499</b>	<b>3,437,419</b>
Fund balances:				
Restricted for:				
Categorical funding	95,609	0	0	95,609
Management levy purposes	0	0	341,615	341,615
Student activities	0	0	850	850
School infrastructure	0	869,690	0	869,690
Physical plant and equipment	0	842,745	0	842,745
Unassigned	135,313	0	0	135,313
<b>Total fund balances</b>	<b>230,922</b>	<b>1,712,435</b>	<b>342,465</b>	<b>2,285,822</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,249,766</b>	<b>2,089,511</b>	<b>383,964</b>	<b>5,723,241</b>

SEE NOTES TO FINANCIAL STATEMENTS

UNITED COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2012

<b>Total fund balances of governmental funds(page 20)</b>	\$ 2,285,822
 <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 reported as assets in in the governmental funds.	2,185,369
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	126,400
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.	(274)
Long-term liabilities, including compensated absences payable, and other postemployment benefits payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(199,634)</u>
<b>Net assets of governmental activities(page 18)</b>	<u><u>\$ 4,397,683</u></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, 2012

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>Revenues:</b>				
Local sources:				
Local tax	\$ 2,275,878	651,638	40,881	2,968,397
Tuition	511,340	0	0	511,340
Other	16,676	20,748	7,895	45,319
State sources	1,220,072	897	13	1,220,982
Federal sources	115,880	6,300	0	122,180
Total revenues	<u>4,139,846</u>	<u>679,583</u>	<u>48,789</u>	<u>4,868,218</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	2,010,685	96,001	42,649	2,149,335
Special	423,284	0	0	423,284
Other	291,092	0	64	291,156
	<u>2,725,061</u>	<u>96,001</u>	<u>42,713</u>	<u>2,863,775</u>
Support services:				
Student	93,281	0	0	93,281
Instructional staff	25,609	29,374	0	54,983
Administration	352,871	4,758	42,438	400,067
Operation and maintenance of plant	224,874	38,833	0	263,707
Transportation	216,910	0	0	216,910
	<u>913,545</u>	<u>72,965</u>	<u>42,438</u>	<u>1,028,948</u>
Capital outlay	0	334,508	0	334,508
Long-term debt:				
Principal	0	0	24,012	24,012
Interest and fiscal charges	0	0	3,182	3,182
	<u>0</u>	<u>0</u>	<u>27,194</u>	<u>27,194</u>
Other expenditures:				
AEA flowthrough	121,058	0	0	121,058
Total expenditures	<u>3,759,664</u>	<u>503,474</u>	<u>112,345</u>	<u>4,375,483</u>
Excess(Deficiency) of revenues over(under) expenditures	380,182	176,109	(63,556)	492,735
Other financing sources(uses):				
Transfer in	0	0	27,194	27,194
Transfer out	0	(27,194)	0	(27,194)
Total other financing sources(uses)	<u>0</u>	<u>(27,194)</u>	<u>27,194</u>	<u>0</u>
Net change in fund balances	380,182	148,915	(36,362)	492,735
Fund balance beginning of year	(149,260)	1,563,520	378,827	1,793,087
Fund balance end of year	<u>\$ 230,922</u>	<u>1,712,435</u>	<u>342,465</u>	<u>2,285,822</u>

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, 2012

Net change in fund balances - total governmental funds(page 22) \$ 492,735

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Capital outlays	\$ 277,788	
Depreciation expense	<u>(229,673)</u>	48,115

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 24,012

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. 263

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. (1,814)

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	\$ 67,513	
Compensated absences	(279)	
Other postemployment benefits	<u>(63,354)</u>	<u>3,880</u>

Changes in net assets of governmental activities(page 19) \$ 567,191

SEE NOTES TO FINANCIAL STATEMENTS

UNITED COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2012

	School Nutrition	Daycare	School Resale	Total
<b>Assets</b>				
Cash and pooled investments	\$ 8,670	207,604	15,821	232,095
Accounts Receivable	135	149	0	284
Inventories	2,056	0	0	2,056
Capital assets, net of accumulated depreciation	25,567	0	0	25,567
<b>Total assets</b>	<b>36,428</b>	<b>207,753</b>	<b>15,821</b>	<b>260,002</b>
<b>Liabilities</b>				
Due to other funds	6,506	33,622	0	40,128
Accounts payable	0	77	0	77
Unearned revenues	2,230	0	0	2,230
Net OPEB liability	5,723	66	0	5,789
<b>Total liabilities</b>	<b>14,459</b>	<b>33,765</b>	<b>0</b>	<b>48,224</b>
<b>Net Assets</b>				
Invested in capital assets	25,567	0	0	25,567
Unrestricted	(3,598)	173,988	15,821	186,211
<b>Total net assets</b>	<b>\$ 21,969</b>	<b>173,988</b>	<b>15,821</b>	<b>211,778</b>

SEE NOTES TO FINANCIAL STATEMENTS

UNITED COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2012

	School Nutrition	Daycare	School Resale	Total
Operating revenues:				
Local sources:				
Charges for services	\$ 58,071	178,188	1,824	238,083
Miscellaneous	320	3,247	0	3,567
Total operating revenues	<u>58,391</u>	<u>181,435</u>	<u>1,824</u>	<u>241,650</u>
Operating expenses:				
Instruction:				
Other:				
Salaries	0	74,994	0	74,994
Benefits	0	23,214	0	23,214
Services	0	760	0	760
Supplies	0	7,162	0	7,162
Other	0	612	0	612
	<u>0</u>	<u>106,742</u>	<u>0</u>	<u>106,742</u>
Non-instructional programs:				
Salaries	35,186	37,603	0	72,789
Benefits	21,270	5,803	0	27,073
Services	1,756	4,317	0	6,073
Supplies	62,244	0	2,602	64,846
Other	1,701	119	0	1,820
Depreciation	8,431	0	0	8,431
	<u>130,588</u>	<u>47,842</u>	<u>2,602</u>	<u>181,032</u>
Total operating expenses	<u>130,588</u>	<u>154,584</u>	<u>2,602</u>	<u>287,774</u>
Operating income(loss)	<u>(72,197)</u>	<u>26,851</u>	<u>(778)</u>	<u>(46,124)</u>
Non-operating revenues:				
State sources	1,095	0	0	1,095
Federal sources	51,917	0	0	51,917
Interest income	1	12	0	13
Total non-operating revenues	<u>53,013</u>	<u>12</u>	<u>0</u>	<u>53,025</u>
Change in net assets	(19,184)	26,863	(778)	6,901
Net assets beginning of year	<u>41,153</u>	<u>147,125</u>	<u>16,599</u>	<u>204,877</u>
Net assets end of year	<u>\$ 21,969</u>	<u>173,988</u>	<u>15,821</u>	<u>211,778</u>

SEE NOTES TO FINANCIAL STATEMENTS

UNITED COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2012

	School Nutrition	Daycare	School Resale	Total
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 59,127	0	0	59,127
Cash received from miscellaneous	320	181,435	1,824	183,579
Cash payments to employees for services	(54,166)	(141,586)	0	(195,752)
Cash payments to suppliers for goods or services	(57,158)	(13,119)	(2,602)	(72,879)
Net cash provided by(used in) operating activities	(51,877)	26,730	(778)	(25,925)
Cash flows from non-capital financing activities:				
Borrowing from General Fund	(8,752)	31,149	0	22,397
State grants received	1,095	0	0	1,095
Federal grants received	48,272	0	0	48,272
Net cash provided by non-capital financing activities	40,615	31,149	0	71,764
Cash flows from investing activities:				
Interest on investments	1	12	0	13
Net increase(decrease) in cash and cash equivalents	(11,261)	57,891	(778)	45,852
Cash and cash equivalents at beginning of year	19,931	149,713	16,599	186,243
Cash and cash equivalents at end of year	\$ 8,670	207,604	15,821	232,095
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:				
Operating income(loss)	\$ (72,197)	26,851	(778)	(46,124)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:				
Commodities consumed	8,582	0	0	8,582
Depreciation	8,431	0	0	8,431
Decrease in inventories	61	0	0	61
Increase in accounts receivable	(135)	(149)	0	(284)
Decrease in accounts payable	(100)	0	0	(100)
Increase in unearned revenue	1,191	0	0	1,191
Increase in other postemployment benefits	2,290	28	0	2,318
Net cash provided by(used in) operating activities	\$ (51,877)	26,730	(778)	(25,925)
Non-cash investing, capital and related financing activities:				
During the year ended June 30, 2012, the District received Federal commodities valued at \$8,582.				

SEE NOTES TO FINANCIAL STATEMENTS

UNITED COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2012

	<u>Agency Fund</u>
<b>Assets</b>	
Cash and pooled investments	\$ 5,750
Total assets	<u>5,750</u>
<b>Liabilities</b>	
Due to other groups	5,750
Total liabilities	<u>5,750</u>
<b>Net assets</b>	<u><u>\$ 0</u></u>

SEE NOTES TO FINANCIAL STATEMENTS

UNITED COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

(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 twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of 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 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 Counties 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 non-fiduciary 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 service.

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

Invested in capital assets, consists of capital assets, net of accumulated depreciation and reduced by outstanding balance for bonds, notes and other debt attributable 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 non-major governmental funds. Combining schedules are also included for the Capital Project Fund accounts.

The District reports the following major governmental funds:

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

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

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

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

The 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.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply

the expenditure toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

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

Proprietary funds distinguish operating revenues and expenses from non-operating 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 non-operating revenues and expenses.

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

#### D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

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 1% per month penalty for delinquent payments; is based on January 1, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2011.

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

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Land improvements	1,000
Intangibles	25,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

Capital Assets are depreciated using the straight-line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Intangibles	2 or more years
Machinery and equipment:	5-12 years

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

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

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

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

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. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2012. 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, fund balances are classified as follows:

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

Unassigned - All amounts not included in the preceding classifications.

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

E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012, District expenditures in the non-instructional functional area exceeded the budgeted amounts.

**(2) Cash and Pooled Investments**

The District's deposits at June 30, 2012 were entirely covered by Federal depository insurance, collateralized with securities or letters of credit held by the District or the District's agent in the District's name, or by multiple financial institution collateral pool 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 and the Treasurer of the State of Iowa; 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.

At June 30, 2012, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$82,221 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investments in the Iowa Schools Joint Investment Trust were rated AAA by Standard & Poor's Financial Services.

**(3) Due From and Due to Other Funds**

The detail of interfund receivables and payables at June 30, 2012 is as follows:

Receivable Fund	Payable Fund	Amount
General	Enterprise: School Nutrition	\$ 6,506
General	Enterprise: Daycare	33,622
Capital Projects: Physical Plant and Equipment Levy	Capital Projects: Statewide Sales, Services and Use Tax	<u>7,000</u>
Total		<u>\$ 47,128</u>

The Enterprise: School Nutrition Fund is repaying the General Fund for July and August summer salary expenses.

The Enterprise: Daycare Fund is repaying the General Fund for June, July and August summer salary expenses.

The Capital Projects: Statewide Sales, Service and Use Tax Fund is repaying the Capital Projects: Physical Plant and Equipment Levy Fund for FEMA architect fees in relation to building renovations.

**(4) Transfers**

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
	Capital Projects: Physical Plant and Equipment Levy	
Debt Service		\$ 27,194

The transfer from the Capital Projects: Physical Plant and Equipment Levy to the Debt Service Fund was needed for the principal and interest payment of the Apple computer lease.

**(5) Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa School 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. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. NA is the trustee for the program.

The District pledges its state foundation aid payments and General Fund receipts as security for the warrants issued. Repayments must be made when General Fund receipts are received. The District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The Series 2011-2012A included taxable and tax-exempt warrants. The District participated in the issuance of taxable warrants. The interest rates on the taxable Series 2011-2012A warrant is a variable rate, calculated daily, based on the one-month LIBOR rate plus 100 basis points. A summary of the Districts ISCAP activity for the year ended June 30, 2012 is as follows:

Series	Warrant Date	Final Warrant Maturity	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2011-12A	6/30/11	6/23/12	\$ -	336,801	336,801	-

During the Year Ended June 30, 2012, the District paid \$968 of interest on the ISCAP warrant.

**(6) Capital Assets**

Capital assets activity for the year ended June 30, 2012 is as follows:

	<u>Balance</u>			<u>Balance</u>
	<u>Beginning</u>		<u>End</u>	
	<u>of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>of Year</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 30,821	0	0	30,821
Construction in progress	367,863	215,090	582,953	0
Total capital assets not being depreciated	<u>398,684</u>	<u>215,090</u>	<u>582,953</u>	<u>30,821</u>
Capital assets being depreciated:				
Buildings and improvements	2,710,988	609,802	0	3,320,790
Land improvements	565,220	0	0	565,220
Machinery and equipment	1,609,698	35,849	0	1,645,547
Total capital assets being depreciated	<u>4,885,906</u>	<u>645,651</u>	<u>0</u>	<u>5,531,557</u>
Less accumulated depreciation for:				
Buildings and improvements	1,401,247	131,388	0	1,532,635
Land improvements	380,980	26,239	0	407,219
Machinery and equipment	1,365,109	72,046	0	1,437,155
Total accumulated depreciation	<u>3,147,336</u>	<u>229,673</u>	<u>0</u>	<u>3,377,009</u>
Total capital assets being depreciated, net	<u>1,738,570</u>	<u>415,978</u>	<u>0</u>	<u>2,154,548</u>
Governmental activities capital assets, net	<u>\$ 2,137,254</u>	<u>631,068</u>	<u>582,953</u>	<u>2,185,369</u>
<b>Business type activities:</b>				
Machinery and equipment	\$ 110,501	0	0	110,501
Less accumulated depreciation	76,503	8,431	0	84,934
Business type activities capital assets, net	<u>\$ 33,998</u>	<u>(8,431)</u>	<u>0</u>	<u>25,567</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 22,284
Support services:		
Student		156
Administration		4,807
Operation and maintenance of plant		5,963
Transportation		38,682
		<u>71,892</u>
Unallocated depreciation		<u>157,781</u>
Total governmental activities depreciation expense		<u>\$ 229,673</u>
Business type activities:		
Food services		<u>\$ 8,431</u>

**(7) Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2012 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
Compensated absences	\$ 16,133	16,412	16,133	16,412	16,412
Early retirement	67,513	0	67,513	0	0
Computer lease	49,030	0	24,012	25,018	25,018
Net OPEB liability	94,850	63,354	0	158,204	0
Total	\$ 227,526	79,766	107,658	199,634	41,430
Business type activities:					
Net OPEB liability	\$ 3,471	2,318	0	5,789	0

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 fifteen 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 employee's employment with the District. The employee will receive 30 percent of the current year's salary less phase money, supplemental pay or extended contract pay. No liability for early retirement is shown in the financial statements because it is calculated as an explicit subsidy to the OPEB liability.

Computer Lease Payable

On July 15, 2009, the District entered into a lease agreement with Apple for new computers. The lease is scheduled to be repaid as follows from the Special Revenue, Physical Plant and Equipment Levy Fund:

Year	Lease dated July 15, 2009			
Ending	Interest			
June 30,	Rates	Principal	Interest	Total
2013	6.55 %	\$ 25,018	2,176	27,194

**(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 5.38% of their annual covered salary and the District is required to contribute 8.07% of annual covered payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$131,428, \$107,803, and \$111,000 respectively, equal to the required contributions for each year.

**(9) Other Postemployment Benefits**

Plan Description - The District operates a single-employer retiree benefit plan, which provides medical and prescription drug benefits for retirees and their spouses. There are 45 active and 4 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully insured plan with Wellmark Blue Cross Blue. Retirees under age 65 pay the same premium for the medical, prescription drug and dental benefits as active employees, which result in an implicit rate subsidy and an OPEB liability. The District also offers early retirement benefits in the form of health insurance benefits resulting in an explicit subsidy to the OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize and unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 115,000
Interest on net OPEB obligation	4,424
Adjustment to annual required contribution	(3,753)
Annual OPEB cost	<u>115,672</u>
Contributions made	(50,000)
Increase in net OPEB obligation	<u>65,672</u>
Net OPEB obligation beginning of year	<u>98,321</u>
Net OPEB obligation end of year	<u><u>\$ 163,993</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative

difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

For the year ended June 30, 2012, the District contributed \$50,000 to the medical plan. Plan members eligible for benefits contributed \$35,000 or 41.18% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2012 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 115,000	59.13%	\$ 47,000
2011	115,321	55.50%	98,321
2012	115,672	43.23%	163,993

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$787,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$787,000. The covered payroll (annual payroll of active employees covered by the plan) was \$1,105,489 and the ratio of the UAAL to covered payroll was 71.19%. As of June 30, 2012 there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of event far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2009 actuarial valuation date, the Alternative Measurement Method, a simplified version of the Projected Unit Credit Actuarial Cost Method was used. The actuarial assumptions includes a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were based upon national termination studies performed by the Society of Actuaries.

The projected claim costs of the medical plan for retirees less than age 65 are \$947. The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**(10) Risk Management**

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

The District's contributions, which include deficit recovery assessments, 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, 2012 were \$312,383.

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

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.

**(11) 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 \$121,058 for the year ended June 30, 2012 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(12) Categorical Funding**

The District's restricted fund balance for categorical funding at June 30, 2012 is comprised of the following programs:

<u>Project</u>	<u>Amount</u>
LEP weighting	\$ 2,490
Home school assistance program	17,136
Dropout and dropout prevention	50,200
Beginning teacher mentoring	12
Teacher salary supplement	10,640
Market factor	19
Iowa early intervention black grant	3
Model core curriculum	5,397
Professional development	7,146
Market factor incentives	1,948
Transportation assistance	<u>618</u>
Total	<u>\$ 95,609</u>

**(13) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2012, expenditures in the non-instructional function exceeded the amount budgeted.

UNITED COMMUNITY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

UNITED COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2012

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Funds	Funds		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 3,525,056	241,663	3,766,719	4,702,351	4,702,351	(935,632)
State sources	1,220,982	1,095	1,222,077	1,319,136	1,319,136	(97,059)
Federal sources	122,180	51,917	174,097	135,000	135,000	39,097
Total revenues	4,868,218	294,675	5,162,893	6,156,487	6,156,487	(993,594)
Expenditures/expenses:						
Instruction	2,863,775	106,742	2,970,517	4,526,000	4,526,000	1,555,483
Support services	1,028,948	0	1,028,948	1,948,500	1,948,500	919,552
Non-instructional programs	0	181,032	181,032	172,000	172,000	(9,032)
Other expenditures	482,760	0	482,760	765,578	765,578	282,818
Total expenditures/expenses	4,375,483	287,774	4,663,257	7,412,078	7,412,078	2,748,821
Excess(Deficiency) of revenues over(under) expenditures/expenses	492,735	6,901	499,636	(1,255,591)	(1,255,591)	1,755,227
Balance beginning of year	1,793,087	204,877	1,997,964	422,492	422,492	1,575,472
Balance end of year	\$ 2,285,822	211,778	2,497,600	(833,099)	(833,099)	3,330,699

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

UNITED COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2012

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

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

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

During the year ended June 30, 2012, District expenditures in the non-instructional function exceeded the amount budgeted.

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll ( c )	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ 0	\$ 787,000	\$ 787,000	0.00%	\$ 1,333,634	59.01%
2011	July 1, 2009	\$ 0	\$ 787,000	\$ 787,000	0.00%	\$ 1,368,013	57.53%
2012	July 1, 2009	\$ 0	\$ 787,000	787,000	0.00%	\$ 1,105,489	71.19%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

SUPPLEMENTARY INFORMATION

UNITED COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2012

	Special Revenue		
	Student Activity	Manage- ment Levy	Total
<b>Assets</b>			
Cash and pooled investments	\$ 850	341,387	342,237
Receivables:			
Property tax:			
Delinquent	0	228	228
Succeeding year	0	41,499	41,499
<b>Total Assets</b>	<b>\$ 850</b>	<b>383,114</b>	<b>383,964</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	\$ 0	41,499	41,499
Total liabilities	0	41,499	41,499
Fund balances:			
Restricted for:			
Management levy purposes	0	341,615	341,615
Student activities	850	0	850
Total fund balances	850	341,615	342,465
<b>Total Liabilities and Fund Balances</b>	<b>\$ 850</b>	<b>383,114</b>	<b>383,964</b>

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, 2012

	Special Revenue			Debt Service	Total Nonmajor Governmental Funds
	Student Activity	Manage- ment Levy	Total Special Revenue Funds		
Revenues:					
Local sources:					
Local tax	\$ 0	40,881	40,881	0	40,881
Other	219	7,676	7,895	0	7,895
State sources	0	13	13		13
Total revenues	219	48,570	48,789	0	48,789
Expenditures:					
Current:					
Instruction:					
Regular	0	42,649	42,649	0	42,649
Other	64	0	64	0	64
Support services:					
Administration	0	42,438	42,438	0	42,438
Long-term debt:					
Principal	0	0	0	24,012	24,012
Interest and fiscal charges	0	0	0	3,182	3,182
Total expenditures	64	85,087	85,151	27,194	112,345
Excess(Deficiency) of revenues over(under) expenditures	155	(36,517)	(36,362)	(27,194)	(63,556)
Other financing sources:					
Transfer in	0	0	0	27,194	27,194
Excess(Deficiency) or revenues and other financing sources over(under) expenditures	155	(36,517)	(36,362)	0	(36,362)
Fund balances beginning of year	695	378,132	378,827	0	378,827
Fund balance end of year	\$ 850	341,615	342,465	0	342,465

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

UNITED COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECT ACCOUNTS  
 JUNE 30, 2012

	Capital Projects		
	Statewide	Physical	Total
	Sales, Services and Use Tax	Plant and Equipment Levy	
<b>Assets</b>			
Cash and pooled investments	\$ 789,187	833,753	1,622,940
Receivables:			
Property tax:			
Delinquent	0	1,992	1,992
Succeeding year	0	370,076	370,076
Due from other funds	0	7,000	7,000
Due from other governments	87,503	0	87,503
<b>Total Assets</b>	<b>\$ 876,690</b>	<b>1,212,821</b>	<b>2,089,511</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Due to other funds	\$ 7,000	0	7,000
Deferred revenue:			
Succeeding year property tax	0	370,076	370,076
Total liabilities	7,000	370,076	377,076
Fund balances:			
Restricted for:			
School infrastructure	869,690	0	869,690
Physical plant and equipment	0	842,745	842,745
Total fund balances	869,690	842,745	1,712,435
<b>Total Liabilities and Fund Balances</b>	<b>\$ 876,690</b>	<b>1,212,821</b>	<b>2,089,511</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

UNITED COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES  
 CAPITAL PROJECT ACCOUNTS  
 FOR YEAR ENDED JUNE 30, 2012

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ 275,408	376,230	651,638
Other	748	20,000	20,748
State sources	781	116	897
Federal sources	6,300	0	6,300
Total revenues	<u>283,237</u>	<u>396,346</u>	<u>679,583</u>
Expenditures:			
Current:			
Instruction:			
Regular	96,001	0	96,001
Support services:			
Instructional staff	12,590	16,784	29,374
Administration	0	4,758	4,758
Operation and maintenance of plant	1,734	37,099	38,833
Transportation	0	0	0
Capital outlay	25,517	308,991	334,508
Total expenditures	<u>135,842</u>	<u>367,632</u>	<u>503,474</u>
Excess of revenues over expenditures	147,395	28,714	176,109
Other financing uses:			
Transfer out	0	(27,194)	(27,194)
Excess of revenues and other financing sources over expenditures	147,395	1,520	148,915
Fund balances beginning of year	<u>722,295</u>	<u>841,225</u>	<u>1,563,520</u>
Fund balance end of year	<u>\$ 869,690</u>	<u>842,745</u>	<u>1,712,435</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

UNITED COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2012

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Student Council	\$ 686	219	64	841
Interest	9	0	0	9
Total	\$ 695	219	64	850

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

UNITED COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -  
AGENCY FUND  
YEAR ENDED JUNE 30, 2012

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Assets				
Cash and pooled investments	\$ 237	5,513	0	5,750
Liabilities				
Due to other groups	\$ 237	5,513	0	5,750

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

UNITED COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUNDS  
 FOR LAST NINE YEARS

	Modified Accrual Basis								
	Years Ended June 30,								
	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:									
Local sources:									
Local tax	\$ 2,968,397	2,657,694	2,245,354	2,252,265	2,159,550	2,223,123	2,188,783	2,113,951	2,161,356
Tuition	511,340	440,537	270,840	1,285,106	1,274,648	1,219,202	1,035,103	1,045,940	1,006,027
Other	45,319	70,046	28,478	69,073	164,533	167,903	145,050	75,636	48,305
State sources	1,220,982	980,933	920,094	1,053,580	1,090,722	1,071,872	1,253,714	1,115,796	990,837
Federal sources	122,180	168,860	314,723	138,014	86,373	92,371	90,716	86,328	94,537
<b>Total</b>	<b>\$ 4,868,218</b>	<b>4,318,070</b>	<b>3,779,489</b>	<b>4,798,038</b>	<b>4,775,826</b>	<b>4,774,471</b>	<b>4,713,366</b>	<b>4,437,651</b>	<b>4,301,062</b>
Expenditures:									
Current:									
Instruction:									
Regular	\$ 2,149,335	2,119,282	2,128,118	2,744,751	2,411,291	2,452,806	2,233,046	2,449,747	2,377,029
Special	423,284	455,575	400,274	430,722	503,640	392,082	467,737	430,068	543,172
Other	291,156	290,275	228,099	240,073	215,471	86,972	108,152	1,960	22,003
Support services:									
Student	93,281	99,568	109,753	96,907	89,024	137,981	126,054	49,587	48,855
Instructional staff	54,983	66,147	67,827	112,514	63,664	18,336	50,248	43,795	72,729
Administration	400,067	477,431	490,145	486,215	474,542	397,150	351,022	347,571	350,298
Operation and maintenance of plant	263,707	312,755	774,751	289,359	255,613	254,876	235,374	215,282	226,266
Transportation	216,910	287,185	281,635	207,401	272,101	166,663	229,511	178,676	224,964
Non-instructional programs:									
Food service operations	0	0	0	0	1,903	1,570	1,158	31,503	23,617
Community service operations	0	2,323	0	0	0	459	1,452	1,032	4,116
Capital Outlay	334,508	381,361	0	182,677	180,012	240,894	178,190	333,960	163,091
Long-term debt:									
Principal	24,012	22,512	26,272	0	0	0	0	0	0
Interest and fiscal charges	3,182	4,682	922	0	0	0	0	0	0
Other expenditures:									
AEA flow-through	121,058	133,949	134,797	126,184	122,295	119,439	117,851	115,415	118,556
<b>Total</b>	<b>\$ 4,375,483</b>	<b>4,653,045</b>	<b>4,642,593</b>	<b>4,916,803</b>	<b>4,589,556</b>	<b>4,269,228</b>	<b>4,099,795</b>	<b>4,198,596</b>	<b>4,174,696</b>

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 Internal Control over Financial Reporting and  
on Compliance and Other Matters

Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of United Community School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 22, 2013. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of United Community School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered United Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of United Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of United Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected on a timely basis. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings as item I-A-12 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-B-12 to be a significant deficiency.

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Compliance and Other Matters

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 grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2012 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.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of United Community School District and other parties to whom United Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of 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.

January 22, 2013

UNITED COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2012

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-12 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 receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded and checks are prepared by the same person. Also, payroll contracts are entered into the software by one person and are not verified by another individual.

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 - The District is continually looking for ways to improve internal controls with the limited resources and human capital available to the District.

Conclusion - Response accepted.

I-B-12 Payroll Procedures - We noted during our audit while testing payroll that timesheets for hourly and non-certified staff are not being approved by an appropriate supervisor to verify that the timesheets are accurate.

Recommendation - The District should also review its payroll procedures to ensure that timesheets for hourly employees are approved by the appropriate supervisor.

Response - Supervisors have begun signing off on timesheets as suggested by the auditors. The District is currently looking into ways to better its payroll tracking system in line with budgetary constraints.

Conclusion - Response accepted.

OTHER MATTERS:

I-C-12 Nutrition Procedures - We noted during the audit that the commodity food listing was correctly priced using commodity values provided by the Department of Education; however, the ending inventory does not appear to represent a complete listing of items on hand. As a result, nutrition inventory was under reported on the Balance Sheet.

Recommendation - The District should review their procedures to ensure that the nutrition inventory, commodities and purchased food inventory, represents a complete list of items on hand at year end.

Response - The District is working on a better inventory method for the end of the school year to ensure proper recording of inventories.

Conclusion - Response accepted.

UNITED COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2012

Part II: Other Findings Related to Required Statutory Reporting:

II-A-12 Certified Budget - District expenditures for the year ended June 30, 2012 exceeded the amount budgeted in the non-instructional functional area.

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

Response - The non-instructional function budget (Fund 61 and 62) will be amended in fiscal 2013 if the amount of expenditures is to exceed the posted budget.

Conclusion - Response accepted.

II-B-12 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-12 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-12 Business Transactions - No business transactions between the District and District officials or employees were noted.

II-E-12 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-12 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-12 Certified Enrollment - We noted no variance in the basic enrollment data certified to the Department of Education.

II-H-12 Supplementary Weighting - No variance regarding the supplementary weighting certified to the Iowa Department of Education were noted.

II-I-12 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-12 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-12 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

II-L-12 Statewide Sales, Services and Use Tax - No instances of non-compliance noted with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax. Districts are required to include these reporting elements in the Certified Annual Report (CAR)

submitted to the Iowa Department of Education. For the year ended June 30, 2012, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$	722,295
Revenues:			
Statewide sales, services and use tax revenue	\$	275,408	
Other local revenues		748	
School Infrastructure Supplemental		81	
Other State Revenues		700	
Federal Sources		6,300	283,237
			<hr/>
			1,005,532
Expenditures/transfers out:			
School Infrastructure Construction	\$	16,987	
Equipment		15,854	
Other		103,001	135,842
			<hr/>
Ending Balance			<u>\$ 869,690</u>

For the year ended June 30, 2012, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

**II-M-12 Student Activity Fund** - In accordance with 298A.8 of the Code of Iowa and Iowa Administrative Code 281-12.6(1), the purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for students. However, we noted revenues coded to expenses in the activity fund.

We noted expenditures for the reading program in the activity fund which appear to be instructional in nature and would be better suited for as expenditures out of the general fund.

**Recommendation** - The District should review the propriety of revenues and expenditures that are approved in the Student Activity Fund to ensure recording in the proper accounts. The expenditures mentioned appear to be instructional or administrative and are more appropriate from the General Fund.

**Response** - The District has been coding expenditures to the General Fund if they appear instructional or administrative in nature for fiscal 2013.

**Conclusion** - Response accepted.

**II-N-12 PPEL Expenditures** - We noted the District purchased floor mats in the amount of \$8,103.62 from the Physical Plant and Equipment and Levy Fund. Floor mats, do not appear to meet the definition of equipment and therefore are not allowable from the PPEL fund.

**Recommendation** - The District should review its procedures to ensure that purchases made from the PPEL fund are in compliance with Chapter 298 of the Code of Iowa. We also recommend that a corrective transfer of \$8,103.62 be made from the General Fund to the PPEL Fund.

Response - The mats were coded to PPEL as part of the renovation project completed at the end of August 2011. The District has gone over all PPEL expenditure scenarios with the auditors for fiscal 2013 before entering the expenditures into the accounting system to ensure they are properly recorded.

Conclusion - Response accepted.