

PCM COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

NEWS RELEASE

Nolte, Cornman & Johnson P.C. today released an audit report on the PCM Community School District in Prairie City, Iowa.

The District has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Also included is Management's Discussion and Analysis of the District's financial statements.

The District's revenues for the governmental funds totaled \$8,190,194 for the year ended June 30, 2004 and included \$3,195,617 in local tax, \$4,025,365 from the state, \$179,153 from the federal government and \$19,390 in interest on investments. The District also received \$800 from the sale of equipment.

Governmental fund expenditures for the year totaled \$8,279,462 and included \$5,451,759 for instruction, \$2,158,461 for support services and \$667,541 for other expenditures.

In addition, the auditors noted that meals for spouses of board members were paid with District funds. The auditors requested spouses meals be reimbursed to the District. This is a continuing comment from prior year.

A copy of the audit report is available for review in the office of the Auditor of State and the District Secretary's office.

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PCM Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Tom Timmons	President	2003
Joe Woestman	Vice President	2003
Mike Streeter	Board Member	2005
Cliff Current	Board Member (Resigned)	2005
Kim Worth	Board Member (Appointed)	2003
Jeff Kain	Board Member	2003
Mike Schippers	Board Member	2004
David Wood	Board Member	2004
Board of Education (After September 2003 Election)		
Tom Timmons	President	2006
Joe Woestman	Vice President	2006
Michael Naber	Board Member	2006
Kim Worth	Board Member	2005
Mike Streeter	Board Member	2005
Mike Schippers	Board Member	2004
David Wood	Board Member	2004
School Officials		
Kirk Nelson	Superintendent	2004
Linda Beyer	District Secretary/Treasurer and Business Manager	2004
Brian Gruhn	Attorney	2004
Peter Pashley	Attorney	2004

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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INDEPENDENT AUDITOR'S REPORT

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

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

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

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

As described in Note 9 to the financial statements, during the year ended June 30, 2004, PCM Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments; Statement No. 37, Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule- Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated August 16, 2004 on our consideration of the PCM Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws,

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

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise PCM Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

August 16, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

PCM Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

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

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$6,839,237 in fiscal 2003 to \$7,037,856 in fiscal 2004, while General Fund expenditures increased from \$7,209,457 in fiscal 2003 to \$7,420,235 in fiscal 2004. This resulted in a decrease in the District's General Fund balance from \$1,658,545 in fiscal 2003 to a balance of \$1,276,966 in fiscal 2004, a 23% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in local tax revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits. One reason the General Fund balance decreased is because revenues, despite the increase, were less than expenditures.
- A decline in interest rates during the past fiscal year, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone to decrease from \$28,702 in fiscal year 2003 to \$15,888 in fiscal year 2004.

USING THIS ANNUAL REPORT

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

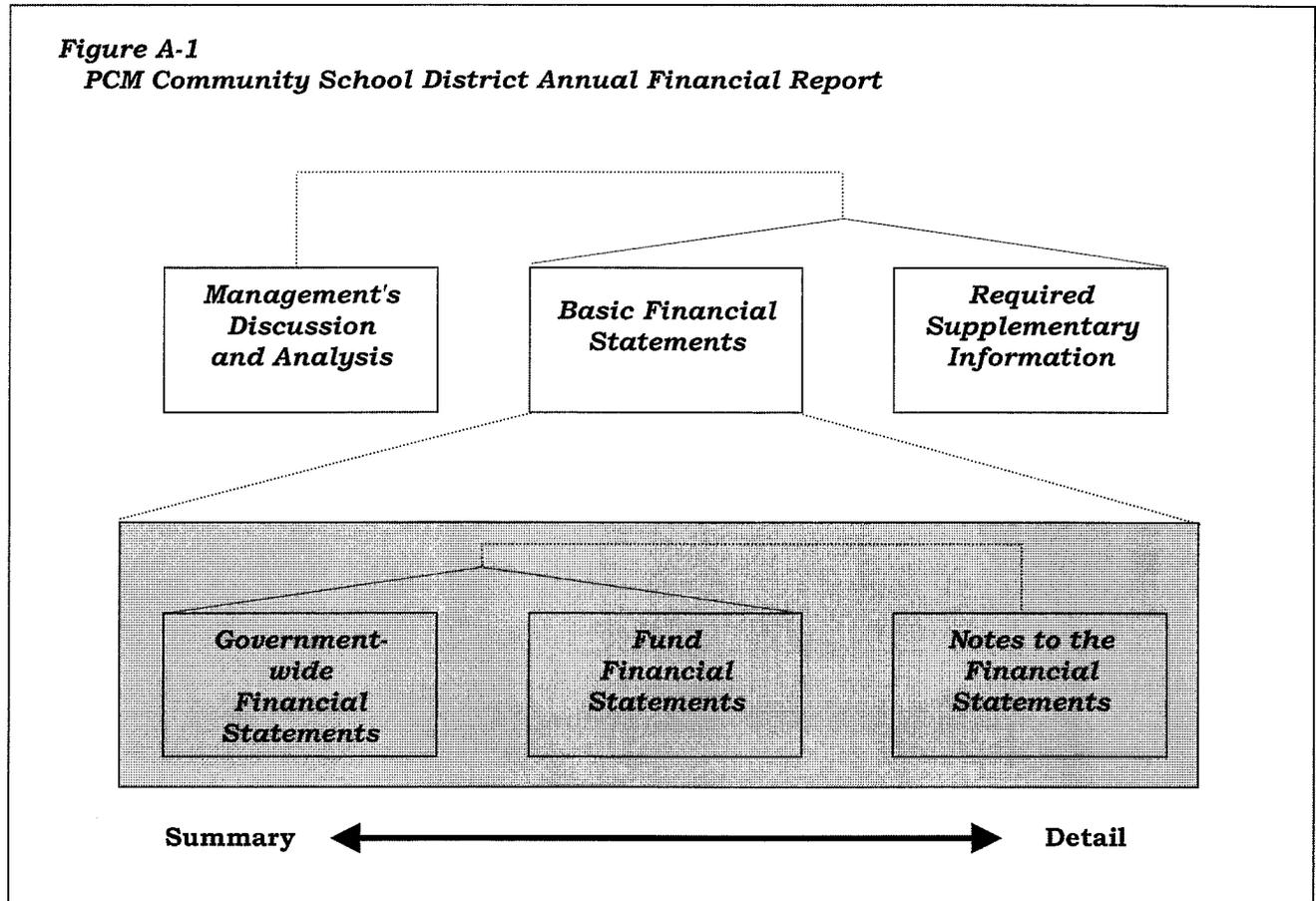


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects and Debt Service 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 one enterprise fund, the School Nutrition 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 fund is the Private-Purpose Trust Fund.

a. Private-Purpose Trust Fund- The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring 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 net assets for the year ended June 30, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Current and other assets	\$ 5,136,641	53,177	5,189,818
Capital assets	4,092,445	53,891	4,146,336
Total assets	<u>9,229,086</u>	<u>107,068</u>	<u>9,336,154</u>
Long-term obligations	1,776,109	0	1,776,109
Other liabilities	2,839,009	6,042	2,845,051
Total liabilities	<u>4,615,118</u>	<u>6,042</u>	<u>4,621,160</u>
Net assets:			
Invested in capital assets, net of related debt	2,719,930	53,891	2,773,821
Restricted	543,502	0	543,502
Unrestricted	1,350,536	47,135	1,397,671
Total net assets	<u>\$ 4,613,968</u>	<u>101,026</u>	<u>4,714,994</u>

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

Figure A-4
Changes of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Revenues:			
Program revenues:			
Charges for services	\$ 766,934	293,766	1,060,700
Operating grants and contributions and restricted interest	767,925	133,119	901,044
General revenues:			
Local tax	3,195,617	0	3,195,617
Unrestricted state grants	3,439,528	0	3,439,528
Other	20,190	346	20,536
Total revenues	8,190,194	427,231	8,617,425
Program expenses:			
Governmental activities:			
Instructional	5,507,934	0	5,507,934
Support services	2,095,687	0	2,095,687
Non-instructional programs	15,381	438,794	454,175
Other expenses	514,926	0	514,926
Total expenses	8,133,928	438,794	8,572,722
Changes in net assets	56,266	(11,563)	44,703
Net assets beginning of year	4,557,702	112,589	4,670,291
Net assets end of year	\$ 4,613,968	101,026	4,714,994

Property tax and unrestricted state grants account for 77% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 89% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$8,190,194 and expenses were \$8,133,928. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 5,507,934	4,245,958
Support services	2,095,687	2,091,249
Non-instruction	15,381	15,381
Other expenses	514,926	246,481
Totals	\$ 8,133,928	6,599,069

- The cost financed by users of the District's programs was \$766,934.

-
- Federal and state governments subsidized certain programs with grants and contributions totaling \$767,925.
 - The net cost of governmental activities was financed with \$3,195,617 in local tax, \$3,439,528 in unrestricted state grants, and \$19,390 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$427,231 and expenses were \$438,794. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the PCM 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 \$2,141,742, compared to last year's ending fund balances of \$2,231,010.

Governmental Fund Highlights

- The District's decreasing General Fund financial position is the product of many factors. Increase in the tax levy during the year resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures ensuring the decrease in the financial position of the District.
- The Management fund balance increased from \$192,266 in 2003, to \$238,688 in 2004, due to the decrease in expenditures.
- The Physical Plant and Equipment Levy (PPEL) fund balance increased from \$107,673 to \$128,604, due to a decrease in total expenditures for the year.
- The Capital Projects fund balance increased from \$19,085 to \$231,822, due to the increase in local option sales and service tax.
- The Debt Service fund balance increased from \$109,673 to \$111,140, due to an increase in revenues.
- The Student Activity and Expendable Trust fund combined balance increased from \$143,768, to \$154,522, due to an increase in revenues in both funds.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$112,589 at June 30, 2003 to \$101,026 at June 30, 2004, representing a decrease of approximately 10%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$25,393 more than budgeted revenues, a variance of 1%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$4.1 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 1.8% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$237,203.

The original cost of the District's capital assets was \$7,869,386. Governmental funds account for \$7,579,853 with \$289,533 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$358,109 at June 30, 2004, compared to \$299,081 reported at June 30, 2003. This increase resulted from the purchases made during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities	Business-type Activities	Total School District
	2004	2004	2004
Land	\$ 156,462	0	156,462
Buildings	3,577,874	0	3,577,874
Machinery and equipment	358,109	53,891	412,000
Total	<u>\$ 4,092,445</u>	<u>53,891</u>	<u>4,146,336</u>

Long-Term Debt

At June 30, 2004, the District had long-term debt outstanding of \$1,776,109 in general obligation bonds, real estate contracts and early retirement. This represents a decrease of approximately 10.5% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding general obligation bonds payable of \$1,470,000 at June 30, 2004, for the Prairie City Elementary.

The District had a real estate contract payable of \$240,000 at June 30, 2004, for the Monroe Motors building.

The District also had total outstanding early retirement payable of \$66,109 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
General obligation bonds	\$ 1,470,000	1,620,000	-9.3%
Capital loan notes	0	65,000	-100.0%
Real estate contract	240,000	300,000	-20.0%
Early retirement	66,109	0	100.0%
Total	\$ 1,776,109	1,985,000	-10.5%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Although the District has experienced stable enrollment for a few years, the District expects a slight increase in enrollment.
- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten-year period beginning in fiscal year 2005.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Linda Beyer, District Board Secretary/Business Manager, PCM Community School District, P.O. Box 490, Prairie City, Iowa, 50228.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 1,951,071	39,124	1,990,195
Receivables:			
Property tax:			
Delinquent	110,084	0	110,084
Succeeding year	2,793,490	0	2,793,490
Income surtax	161,367	0	161,367
Accounts	18,770	0	18,770
Due from other governments	101,859	0	101,859
Inventories	0	14,053	14,053
Capital assets, net of accumulated depreciation(Note 4)	4,092,445	53,891	4,146,336
TOTAL ASSETS	9,229,086	107,068	9,336,154
LIABILITIES			
Accounts payable	40,042	0	40,042
Interest payable	5,477	0	5,477
Deferred revenue:			
Succeeding year property tax	2,793,490	0	2,793,490
Other	0	6,042	6,042
Long-term liabilities(Note 5):			
Portion due within one year:			
General obligation bonds	155,000	0	155,000
Real estate contract payable	88,000	0	88,000
Portion due after one year:			
General obligation bonds	1,315,000	0	1,315,000
Real estate contract payable	152,000	0	152,000
Early retirement	66,109	0	66,109
TOTAL LIABILITIES	4,615,118	6,042	4,621,160
NET ASSETS			
Investment in capital assets, net of related debt	2,719,930	53,891	2,773,821
Restricted for:			
Early intervention	41,513	0	41,513
Talented and gifted	42,495	0	42,495
Teacher quality	312	0	312
Phase III	3,477	0	3,477
Physical plant & equipment levy	128,604	0	128,604
Management levy	172,579	0	172,579
Other special revenue purposes	154,522	0	154,522
Unrestricted	1,350,536	47,135	1,397,671
TOTAL NET ASSETS	\$ 4,613,968	101,026	4,714,994

SEE NOTES TO FINANCIAL STATEMENTS.

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

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Governmental activities:			
Instruction:			
Regular instruction	\$ 3,392,728	220,498	495,042
Special instruction	1,198,740	43,760	0
Other instruction	916,466	502,676	0
	<u>5,507,934</u>	<u>766,934</u>	<u>495,042</u>
Support services:			
Student services	197,528	0	0
Instructional staff services	243,778	0	0
Administration services	625,238	0	0
Operation and maintenance of plant services	668,542	0	0
Transportation services	354,803	0	4,438
Central services	5,798	0	0
	<u>2,095,687</u>	<u>0</u>	<u>4,438</u>
Non-instruction:			
Food service operations	15,381	0	0
Other expenditures:			
Facilities acquisitions	33,113	0	0
Long-term debt interest	90,155	0	0
AEA flowthrough	268,445	0	268,445
Depreciation(unallocated)*	123,213	0	0
	<u>514,926</u>	<u>0</u>	<u>268,445</u>
Total governmental activities	8,133,928	766,934	767,925
Business-Type activities:			
Non-instructional programs:			
Nutrition services	438,794	293,766	133,119
Total business-type activities	438,794	293,766	133,119
Total	\$ 8,572,722	1,060,700	901,044

General Revenues:

Property tax levied for:
 General purposes
 Debt services
 Capital outlay
Local option sales and service tax
Unrestricted state grants
Unrestricted investment earnings
Sale of equipment and materials
Total general revenues

Changes in net assets

Net assets beginning of year, as restated Note 9

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(2,677,188)	0	(2,677,188)
(1,154,980)	0	(1,154,980)
(413,790)	0	(413,790)
(4,245,958)	0	(4,245,958)
(197,528)	0	(197,528)
(243,778)	0	(243,778)
(625,238)	0	(625,238)
(668,542)	0	(668,542)
(350,365)	0	(350,365)
(5,798)	0	(5,798)
(2,091,249)	0	(2,091,249)
(15,381)	0	(15,381)
(33,113)	0	(33,113)
(90,155)	0	(90,155)
0	0	0
(123,213)	0	(123,213)
(246,481)	0	(246,481)
(6,599,069)	0	(6,599,069)
0	(11,909)	(11,909)
0	(11,909)	(11,909)
(6,599,069)	(11,909)	(6,610,978)
\$ 2,559,819	0	2,559,819
223,450	0	223,450
199,659	0	199,659
212,689	0	212,689
3,439,528	0	3,439,528
19,390	346	19,736
800	0	800
6,655,335	346	6,655,681
56,266	(11,563)	44,703
4,557,702	112,589	4,670,291
\$ 4,613,968	101,026	4,714,994

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

	General	Special Revenue- Manage- ment	Capital Projects	Other Governmental Funds	Total
ASSETS					
Cash and pooled investments	\$ 1,161,902	242,323	158,096	388,750	1,951,071
Receivables:					
Property tax					
Delinquent	29,089	1,753	73,726	5,516	110,084
Succeeding year	2,255,823	120,000	0	417,667	2,793,490
Income surtax	161,367	0	0	0	161,367
Accounts	18,770	0	0	0	18,770
Due from other governments	101,859	0	0	0	101,859
TOTAL ASSETS	\$ 3,728,810	364,076	231,822	811,933	5,136,641
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 34,654	5,388	0	0	40,042
Deferred revenue:					
Succeeding year property tax	2,255,823	120,000	0	417,667	2,793,490
Income surtax	161,367	0	0	0	161,367
Total liabilities	2,451,844	125,388	0	417,667	2,994,899
Fund balances:					
Reserved for:					
Debt service	0	0	0	111,140	111,140
Early intervention	41,513	0	0	0	41,513
Talented and gifted	42,495	0	0	0	42,495
Teacher quality	312	0	0	0	312
Phase III	3,477	0	0	0	3,477
Unreserved:					
Undesignated	1,189,169	238,688	231,822	283,126	1,942,805
Total fund balances	1,276,966	238,688	231,822	394,266	2,141,742
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,728,810	364,076	231,822	811,933	5,136,641

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Special Revenue- Manage- ment	Capital Projects	Other Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 2,439,354	120,465	0	423,109	2,982,928
LOSST	0	0	212,689	0	212,689
Tuition	264,258	0	0	0	264,258
Other	130,108	1,810	48	393,035	525,001
State sources	4,024,983	81	0	301	4,025,365
Federal sources	179,153	0	0	0	179,153
Total revenues	7,037,856	122,356	212,737	816,445	8,189,394
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	3,323,343	13,210	0	0	3,336,553
Special instruction	1,198,740	0	0	0	1,198,740
Other instruction	532,269	0	0	384,197	916,466
	5,054,352	13,210	0	384,197	5,451,759
Support services:					
Student services	197,124	404	0	0	197,528
Instructional staff services	242,480	1,298	0	0	243,778
Administration services	625,238	0	0	0	625,238
Operation and maintenance of plant services	635,426	37,830	0	0	673,256
Transportation services	391,372	21,491	0	0	412,863
Central services	5,798	0	0	0	5,798
	2,097,438	61,023	0	0	2,158,461
Non-instructional:					
Food service operations	0	1,701	0	0	1,701
Other expenditures:					
Facilities acquisitions	0	0	0	33,113	33,113
Long-term debt:					
Principal	0	0	0	275,000	275,000
Interest and fiscal charges	0	0	0	90,983	90,983
AEA flowthrough	268,445	0	0	0	268,445
	268,445	0	0	399,096	667,541
Total expenditures	7,420,235	75,934	0	783,293	8,279,462
Excess (deficiency) of revenues over (under) expenditures	(382,379)	46,422	212,737	33,152	(90,068)
Other financing sources (uses):					
Transfers in	0	0	0	143,280	143,280
Transfers out	0	0	0	(143,280)	(143,280)
Sale of equipment and materials	800	0	0	0	800
Total other financing sources (uses)	800	0	0	0	800
Net change in fund balances	(381,579)	46,422	212,737	33,152	(89,268)
Fund balance beginning of year	1,658,545	192,266	19,085	361,114	2,231,010
Fund balance end of year	\$ 1,276,966	238,688	231,822	394,266	2,141,742

SEE NOTES TO FINANCIAL STATEMENTS.

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

Total fund balances of governmental funds (page 17)	\$ 2,141,742
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	4,092,445
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(5,477)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	161,367
Long-term liabilities, including bonds payable, real estate contract payable, and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(1,776,109)
Net assets of governmental activites (page 14)	<u>\$ 4,613,968</u>

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds (page 19)	\$	(89,268)
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Deprecation expense exceeded capital outlays expenditures in the current year, as follows:		
Capital expenditures	\$	160,842
Depreciation expense		(225,027)
		(64,185)
 Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.		
		275,000
 Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		
		828
 Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.		
Early retirement		(66,109)
 Changes in net assets of governmental activities (page 16)	 \$	 56,266

SEE NOTES TO FINANCIAL STATEMENTS.

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

	<u>School</u> <u>Nutrition</u>
ASSETS	
Cash and cash equivalents	\$ 39,124
Inventories	14,053
Capital assets, net of accumulated depreciation	53,891
TOTAL ASSETS	<u>107,068</u>
LIABILITIES	
Deferred revenues	6,042
TOTAL LIABILITES	<u>6,042</u>
NET ASSETS	
Invested in capital assets, net of related debt	53,891
Unrestricted	47,135
TOTAL NET ASSETS	<u>\$ 101,026</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Other local sources:	
Sale of lunches and breakfasts:	
Students	\$ 279,642
Adults	14,124
TOTAL OPERATING REVENUES	293,766
OPERATING EXPENSES:	
Food service operations:	
Salaries	144,133
Benefits	57,771
Services	8,299
Supplies	216,415
Depreciation	12,176
TOTAL OPERATING EXPENSES	438,794
OPERATING LOSS	(145,028)
NON-OPERATING REVENUES:	
Interest	346
State sources	5,701
Federal sources	127,418
TOTAL NON-OPERATING REVENUES	133,465
Net loss	(11,563)
Net assets at beginning of year	112,589
Net assets end of year	\$ 101,026

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 295,755
Cash payments to employees for services	(201,904)
Cash payments to suppliers for goods or services	(198,151)
Net cash used in operating activities	(104,300)
Cash flows from non-capital financing activities:	
State grants received	5,701
Federal grants received	99,932
Net cash provided by non-capital financing activities	105,633
Cash flows from investing activities:	
Interest on investments	346
Net cash provided by investing activities	346
Cash flows from capital financing activities:	
Purchase of assets	(4,597)
Net cash used in financing activities	(4,597)
Net decrease in cash and cash equivalents	(2,918)
Cash and cash equivalents at beginning of year	42,042
Cash and cash equivalents at end of year	\$ 39,124
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (145,028)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	27,486
Depreciation	12,176
Increase in inventories	(748)
Decrease in accounts receivable	745
Decrease in accounts payable	(175)
Increase in deferred revenue	1,244
Net cash used in operating activities	\$ (104,300)

RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR
END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE
SHEET:

Current assets:	
Cash and pooled investments	\$ 39,124

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2004, the District received Federal commodities valued at \$27,486.

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2004

	Private Purpose Trust
	Scholarship
ASSETS	
Cash and pooled investments	\$ 52,600
TOTAL ASSETS	\$ 52,600
LIABILITIES AND FUND EQUITY	
Liabilities:	\$ 0
Fund equity:	
Fund balances:	
Reserved for scholarships	52,600
TOTAL LIABILITES AND FUND EQUITY	\$ 52,600

SEE NOTES TO FINANCIAL STATEMENTS.

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

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

The PCM 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 Prairie City, and Monroe, Iowa, and the predominate agricultural territory in Jasper, Marion and Polk 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, PCM Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The PCM 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 Jasper, Marion and Polk County Assessors' Conference Board.

B. Basis of Presentation

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

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

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

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

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

The Special Revenue - Management Fund is utilized to account for the payment of property insurance and early retirement benefits.

The District reports the following major proprietary fund.

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

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund is as follows:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

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

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax

accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

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

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

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

Asset Class	Amount
Land	\$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

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

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

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

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

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, no disbursements exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$8,799 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

(3) **Transfers**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	PPEL	\$ 143,280

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

(4) Capital Assets

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

	<u>Balance</u> <u>Beginning of</u> <u>Year, as restated</u> <u>(Note 9)</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>End</u> <u>of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 156,462	0	0	156,462
Total capital assets not being depreciated	156,462	0	0	156,462
Capital assets being depreciated:				
Buildings	6,129,038	0	0	6,129,038
Machinery and equipment	1,239,747	160,842	106,236	1,294,353
Total capital assets being depreciated	7,368,785	160,842	106,236	7,423,391
Less accumulated depreciation for:				
Buildings	2,427,951	123,213	0	2,551,164
Machinery and equipment	940,666	101,814	106,236	936,244
Total accumulated depreciation	3,368,617	225,027	106,236	3,487,408
Total capital assets being depreciated, net	4,000,168	(64,185)	0	3,935,983
Governmental activities capital assets, net \$	4,156,630	(64,185)	0	4,092,445
Business-type activities:				
Machinery and equipment	\$ 284,936	4,597	0	289,533
Less accumulated depreciation	223,466	12,176	0	235,642
Business-type activities capital assets, net \$	61,470	(7,579)	0	53,891

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 39,220
Support services:		
Operation and maintenance of plant services		687
Transportation		61,907
		101,814
Unallocated depreciation		123,213
		<u>\$ 225,027</u>
Business-type activities:		
Food services		<u>\$ 12,176</u>

(5) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation	\$ 1,620,000	0	150,000	1,470,000	155,000
Capital loan note	65,000	0	65,000	0	0
Real estate contract	300,000	0	60,000	240,000	88,000
Early retirement	0	66,109	0	66,109	0
Total	<u>\$ 1,985,000</u>	<u>66,109</u>	<u>275,000</u>	<u>1,776,109</u>	<u>243,000</u>

Early Retirement

The District offers a voluntary early retirement plan to its full-time employees. Employees must be between the ages of fifty-five and sixty-four and must have completed fifteen years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives are equal to 75% of the employees yearly salary.

Real Estate Contract Payable

Details of the District's June 30, 2004 real estate contract indebtedness is as follows:

Year Ending June 30,	Interest Rate	Real Estate Contract issue dated June 1, 2003		
		Principal	Interest	Total
2005	5.00 %	\$ 88,000	12,000	100,000
2006	5.00	92,400	7,600	100,000
2007	5.00	22,020	2,980	25,000
2008	5.00	37,580	1,879	39,459
Total		<u>\$ 240,000</u>	<u>24,459</u>	<u>264,459</u>

General Obligation

Details of the District's June 30, 2004 General Obligation bonds indebtedness is as follows:

Year Ending June 30,	Interest Rate	Bond issue dated August 1, 1998		
		Principal	Interest	Total
2005	4.45 %	\$ 155,000	65,728	220,728
2006	4.45	165,000	58,830	223,830
2007	4.45	175,000	51,488	226,488
2008	4.45	180,000	43,700	223,700
2009	4.45	185,000	35,690	220,690
2010	4.45	195,000	27,458	222,458
2011	4.50	205,000	18,780	223,780
2012	4.55	210,000	9,555	219,555
Total		\$ 1,470,000	311,228	1,781,228

Capital Loan Notes Payable

During the year ended June 30, 1997, the District entered into an agreement with Mid-Iowa Savings Bank providing for \$390,000 for heating, ventilation and air conditioning improvements. The note was repaid during the year ended June 30, 2004.

(6) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$272,798, \$265,103, and \$256,265 respectively, equal to the required contributions for each year.

(7) Risk Management

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

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

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the

risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$520,023.

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

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

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

PCM 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.

(8) 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 \$268,445 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Accounting Change and Restatements

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

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

accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

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

Beginning capital assets for governmental activities of \$8,503,929 were restated to \$7,525,247. The restatement primarily removed assets below the District's capitalization threshold.

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

	Fund				Total
	General	Management	Capital Projects	Other Governmental Funds	
Net assets, June 30, 2003, as previously reported \$	1,658,545	192,266	19,085	361,114	2,231,010
GASB Interpretation 6 adjustments	0	0	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	\$ 1,658,545	192,266	19,085	361,114	2,231,010
GASB 34 adjustments:					
Capital assets, net of accumulated depreciation of \$3,368,617					4,156,630
Income surtax					161,367
Long-term liabilities:					
General obligation bonds				1,620,000	
Capital loan notes				65,000	
Real estate contract				300,000	(1,985,000)
Accrued interest					(6,305)
Net assets July 1, 2003, as restated					\$ 4,557,702

REQUIRED SUPPLEMENTAL INFORMATION

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

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 3,984,361	296,101
Intermediate sources	0	0
State sources	4,025,093	5,701
Federal sources	142,352	127,418
Total receipts	<u>8,151,806</u>	<u>429,220</u>
Disbursements:		
Instruction	5,493,048	0
Support services	2,160,444	0
Non-instructional programs	1,701	432,138
Other expenditures	667,541	0
Total disbursements	<u>8,322,734</u>	<u>432,138</u>
Excess(deficiency) of receipts over(under) disbursements	(170,928)	(2,918)
Other financing sources, net	800	0
Excess(deficiency) of receipts and other financing sources over(under) disbursements	(170,128)	(2,918)
Balance beginning of year	<u>2,121,199</u>	<u>42,042</u>
Balance end of year	<u>\$ 1,951,071</u>	<u>39,124</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
4,280,462	4,147,655	4,147,655	132,807
0	5,000	5,000	(5,000)
4,030,794	4,163,978	4,163,978	(133,184)
269,770	239,000	239,000	30,770
8,581,026	8,555,633	8,555,633	25,393
5,493,048	5,673,000	5,673,000	179,952
2,160,444	2,429,000	2,429,000	268,556
433,839	448,740	448,740	14,901
667,541	700,919	700,919	33,378
8,754,872	9,251,659	9,251,659	496,787
(173,846)	(696,026)	(696,026)	522,180
800	0	0	800
(173,046)	(696,026)	(696,026)	522,980
2,163,241	2,058,771	2,058,771	104,470
1,990,195	1,362,745	1,362,745	627,450

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

	Governmental Fund Types		
	Cash Basis	Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 8,151,806	37,588	8,189,394
Expenses	8,322,734	(43,272)	8,279,462
Net	(170,928)	80,860	(90,068)
Other financing sources, net	800	0	800
Beginning fund balances	2,121,199	109,811	2,231,010
Ending fund balances	\$ 1,951,071	190,671	2,141,742

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Accrual	
Adjust- ments		Accrual Basis	
Revenues	\$ 429,220	(1,989)	427,231
Expenses	432,138	6,656	438,794
Net	(2,918)	(8,645)	(11,563)
Beginning retained earnings	42,042	70,547	112,589
Ending retained earnings	\$ 39,124	61,902	101,026

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

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

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

OTHER SUPPLEMENTAL INFORMATION

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

	Special Revenue Funds					
	Physical Plant & Equipment Levy	Student Activity	Expendable Trust	Total Special Revenue	Debt Service	Total Nonmajor Governmental Funds
ASSETS						
Cash and pooled investments	\$ 125,900	150,550	3,972	280,422	108,328	388,750
Receivables:						
Property tax:						
Current year delinquent	2,704	0	0	2,704	2,812	5,516
Succeeding year	196,640	0	0	196,640	221,027	417,667
TOTAL ASSETS	\$ 325,244	150,550	3,972	479,766	332,167	811,933
LIABILITIES AND FUND EQUITY						
Liabilities:						
Deferred revenue:						
Succeeding year property tax	\$ 196,640	0	0	196,640	221,027	417,667
	196,640	0	0	196,640	221,027	417,667
Fund equity:						
Fund balances:						
Unreserved:						
Undesignated	128,604	150,550	3,972	283,126	111,140	394,266
Total fund balances	128,604	150,550	3,972	283,126	111,140	394,266
TOTAL LIABILITIES AND FUND EQUITY	\$ 325,244	150,550	3,972	479,766	332,167	811,933

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue					
	Physical Plant & Equipment Levy	Student Activity	Expendable Trust	Total Special Revenue	Debt Service	Total Nonmajor Governmental Funds
REVENUES:						
Local sources:						
Local tax	\$ 199,659	0	0	199,659	223,450	423,109
Other	1,078	388,543	2,848	392,469	566	393,035
State sources	147	0	0	147	154	301
TOTAL REVENUES	200,884	388,543	2,848	592,275	224,170	816,445
EXPENDITURES:						
Current:						
Instruction:						
Other instruction	3,560	377,637	3,000	384,197	0	384,197
	3,560	377,637	3,000	384,197	0	384,197
Other expenditures:						
Facility acquisition	33,113	0	0	33,113	0	33,113
Long-term debt:						
Principle	0	0	0	0	275,000	275,000
Interest and fiscal charges	0	0	0	0	90,983	90,983
	33,113	0	0	33,113	365,983	399,096
TOTAL EXPENDITURES	36,673	377,637	3,000	417,310	365,983	783,293
Excess(deficiency) of revenues over (under) expenditures	164,211	10,906	(152)	174,965	(141,813)	33,152
Other financing sources:						
Transfers in	0	0	0	0	143,280	143,280
Transfers out	(143,280)	0	0	(143,280)	0	(143,280)
Total other financing sources	(143,280)	0	0	(143,280)	143,280	0
Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing uses	20,931	10,906	(152)	31,685	1,467	33,152
Fund balance beginning of year	107,673	139,644	4,124	251,441	109,673	361,114
Fund balance end of year	\$ 128,604	150,550	3,972	283,126	111,140	394,266

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Academic decathlon	\$ 14	0	14	0
Art club	482	633	141	974
Athletics	33,777	138,191	140,244	31,724
Band	5,545	67,148	68,089	4,604
Cheerleaders	385	10,973	5,037	6,321
Class of 2000	634	0	0	634
Class of 2001	161	513	524	150
Class of 2004	446	10,593	10,924	115
Class of 2005	2,609	3,993	4,643	1,959
Class of 2006	1,480	533	0	2,013
Class of 2007	0	90	25	65
Class of 2008	189	150	0	339
Conference activities	218	0	0	218
Drama	825	818	718	925
Extra curricular	27,048	33,310	22,233	38,125
FFA	6,300	23,841	23,612	6,529
Foods/clothing club	326	161	367	120
Football club	0	4,293	2,087	2,206
Horticulture	19	0	19	0
Interest	659	288	0	947
Jazz creation	5,148	17,343	17,041	5,450
Journalism	157	207	150	214
Korver Memorial	2,867	0	2,680	187
Library club	382	653	323	712
National honor society	146	420	338	228
Photography club	471	0	187	284
Pop fund	1,287	1,987	494	2,780
Previous classes	374	0	374	0
Science club	415	0	0	415
Shop club	(243)	793	550	0
Softball club	2,572	3,367	11,858	(5,919)
Spanish club	990	30	30	990
Speech club	949	4,252	4,270	931
Spirit club	1,901	11,571	8,926	4,546
Student government	10,402	16,207	16,016	10,593
Thespians	2,205	1,836	3,412	629
Vocal	6,419	8,201	7,779	6,841
Weight club	2,959	3,547	4,849	1,657
FHA club	786	60	2,359	(1,513)
Accounting club	145	1,573	145	1,573
Playground	3,597	1,438	929	4,106
Reading club	2,220	2,858	140	4,938
Spelling bee	424	0	0	424
Just say no club	3,913	2,801	3,491	3,223
Preschool	2,138	1,932	1,311	2,759
Yearbook	5,903	11,766	11,135	6,534
Other	0	173	173	0
Total	\$ 139,644	388,543	377,637	150,550

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 3,195,617	2,765,410	2,764,561	2,725,570
Tuition	264,258	301,520	257,363	233,923
Other	525,001	465,522	528,568	520,784
Intermediate sources	0	7,933	12,987	14,474
State sources	4,025,365	4,018,548	4,053,398	3,947,799
Federal sources	179,153	156,692	129,699	162,758
Total	\$ 8,189,394	7,715,625	7,746,576	7,605,308
Expenditures:				
Instruction:				
Regular instruction	\$ 3,336,553	3,277,579	3,221,994	3,144,398
Special instruction	1,198,740	1,172,368	1,112,758	954,565
Other instruction	916,466	802,467	824,882	793,897
Support services:				
Student services	197,528	191,396	200,881	185,979
Instructional staff services	243,778	229,325	125,697	119,372
Administration services	625,238	618,439	631,536	600,714
Operation and maintenance of plant services	673,256	689,565	608,259	598,807
Transportation services	412,863	353,365	379,177	360,210
Central services	5,798	10,807	30,959	27,492
Non-instructional:				
Food service operations	1,701	1,375	1,693	1,465
Other expenditures:				
Facilities acquisitions	33,113	381,554	102,303	199,140
Long Term Debt:				
Principal	275,000	205,000	185,000	170,000
Interest	90,983	85,540	125,108	136,850
AEA flow-through	268,445	288,508	290,869	290,237
Total	\$ 8,279,462	8,307,288	7,841,116	7,583,126

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

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

We have audited the financial statements of PCM Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 16, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether PCM Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved except for II-D-04.

Internal Control Over Financial Reporting

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

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

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

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

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


NOLTE, CORNMAN & JOHNSON, P.C.

August 16, 2004

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

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

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. 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.

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

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

Conclusion - Response accepted.

I-B-04 District and Regional Rents - We noted during our audit that the district receives money for use of facilities when hosting district and regional events.

Recommendation - Chapter 297.9 of the code of Iowa requires rent to be receipted into the general fund. The district should receipt rent collected for facility usage into the general fund.

Response - We will comply.

Conclusion - Response accepted.

I-C-04 Student Activity Fund - We noted during our audit that the Student Activity fund included an interest account.

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

Response - We will comply.

Conclusion - Response accepted.

I-D-04 Gate Admissions - The gate admissions were not reconciled to pre-numbered tickets.

Recommendation - The District should establish reconciliation procedures for gate admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the admissions to the number of tickets issued.

Response - We will comply.

Conclusion - Response accepted.

I-E-04 Student Activity Internal Control Procedures - We noted during our audit that the sponsor of Jazz Creation appeared to run transactions through her personal checking account. We noted instances when money was collected by the sponsor, however was not deposited into the District's bank account. Expenditures were paid by the District, which created a deficit balance in the club. Management, researching the reason for the deficit, discovered that the sponsor had un-deposited receipts, as well as, used her personal checking account for deposits. The sponsor turned over the un-deposited receipts as well as the balance of funds collected and not expended for Jazz Creations.

Recommendation - The District should not allow individuals collecting revenues to hold for a future purpose, nor to deposit into personal accounts. Receipts should be deposited intact on a timely basis. The District should require all receipts and disbursements flow through the District records. Individuals or separate bank accounts, external to District records are not appropriate, and employees and sponsors should be aware that all record keeping should be maintained by the District. The District should document the receipting and subsequent depositing procedures, in addition to the request for disbursements and subsequent payment. This documentation of process and procedures should be distributed to all employees and sponsors of the student activity organization.

Response - We will comply.

Conclusion - Response accepted.

I-F-04 Student Activity Fund - We noted during our audit that the Student Activity fund included old class accounts.

Recommendation - The District should close out class accounts upon graduation.

Response - We will comply.

Conclusion - Response accepted.

I-G-04 Authorized Check Signatures - We noted during our audit that checks written from the Student Activity have two signatures; however, the board president is not signing these checks.

Recommendation - The Board President and Board Secretary are to sign all checks written by the District to be in compliance with Chapter 291.1 of the Code of Iowa. However, the Board President can designate an authorized signer other than himself.

Response - We will review and comply.

Conclusion - Response accepted.

I-H-04 Purchase Orders - We noted during our audit, instances in the Student Activity Fund where purchase orders were not approved prior to purchase of goods.

Recommendation - The District should ensure that purchase procedures are followed.

Response - We will review and comply.

Conclusion - Response accepted.

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

Part II: Other Findings Related to Statutory Reporting

- II-A-04 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- II-B-04 Certified Budget - District disbursements for the year ended June 30, 2004, did not exceed the amount budgeted.
- II-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-D-04 Travel Expense - Expenditures of District money for travel expenses of spouses were noted. In the 2002, 2003, and 2004 year, the Board had a dinner at a restaurant that the District paid for both the Board Member and their spouses' meals, and we have requested the spouses' portion of the bill be repaid to the District. The District's response has been that they would comply. This repayment to the District was not noted as of the audit date.
- Recommendation - Part of the total expense of \$463.45 in 2002, \$836.98 in 2003, and \$574.12 in 2004 should be reimbursed to the District for spouses' meals. Also, the District should review their procedures to make sure reimbursements are done in a timely manner.
- Response - It will be reviewed by the board.
- Conclusion - Response acknowledged.
- II-E-04 Business Transactions - No business transactions between the District and District officials were noted
- II-F-04 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-H-04 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-I-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

II-K-04 Financial Condition - We noted during our audit that the District had negative individual account balances in the Student Activity Fund.

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

Response - We will review and comply.

Conclusion - Response accepted.