

PEKIN COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

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Pekin Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 election)		
David Holingsworth	President	2005
Jerry Gott	Vice President	2003
David Bennett	Board Member	2003
Mike Spilman	Board Member	2004
Greg Millikin	Board Member	2004
Harlan Van Voorst	Board Member	2003
Andrew Adam	Board Member	2005
Board of Education (After September 2003 election)		
David Hollingsworth	President	2005
Jerry Gott	Vice President	2006
Mike Spilman	Board Member	2004
Greg Millikin	Board Member	2004
Andrew Adam	Board Member	2005
David Bennett	Board Member	2006
Harlan Van Voorst	Board Member	2006
School Officials		
Dr. Roger Macklem	Superintendent	2004
Connie Linney	District Secretary/ Treasurer	2004
Richard Gaumer	Attorney	2004

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
Pekin 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 Pekin 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 Pekin Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 10 to the financial statements, during the year ended June 30, 2004, Pekin Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - State and Local Governments - Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

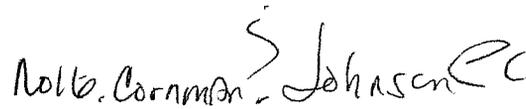
In accordance with Government Auditing Standards, we have also issued our report dated October 20, 2004 on our consideration of the Pekin Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral

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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 12 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. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pekin 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 other 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.

October 20, 2004

BASIC FINANCIAL STATEMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Pekin 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 \$5,376,116 in fiscal 2003 to \$5,509,116 in fiscal 2004, while General Fund expenditures decreased from \$5,592,081 in fiscal 2003 to \$5,505,205 in fiscal 2004. The District's General Fund balance decreased from \$329,953 in fiscal 2003 to \$278,365 in fiscal 2004, a 16% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in property tax revenue in fiscal 2004.
- The decrease in General Fund expenditures was due primarily to a decrease in the purchased services, supplies and equipment expenses.

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 Pekin 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 Pekin 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 Pekin 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. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

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

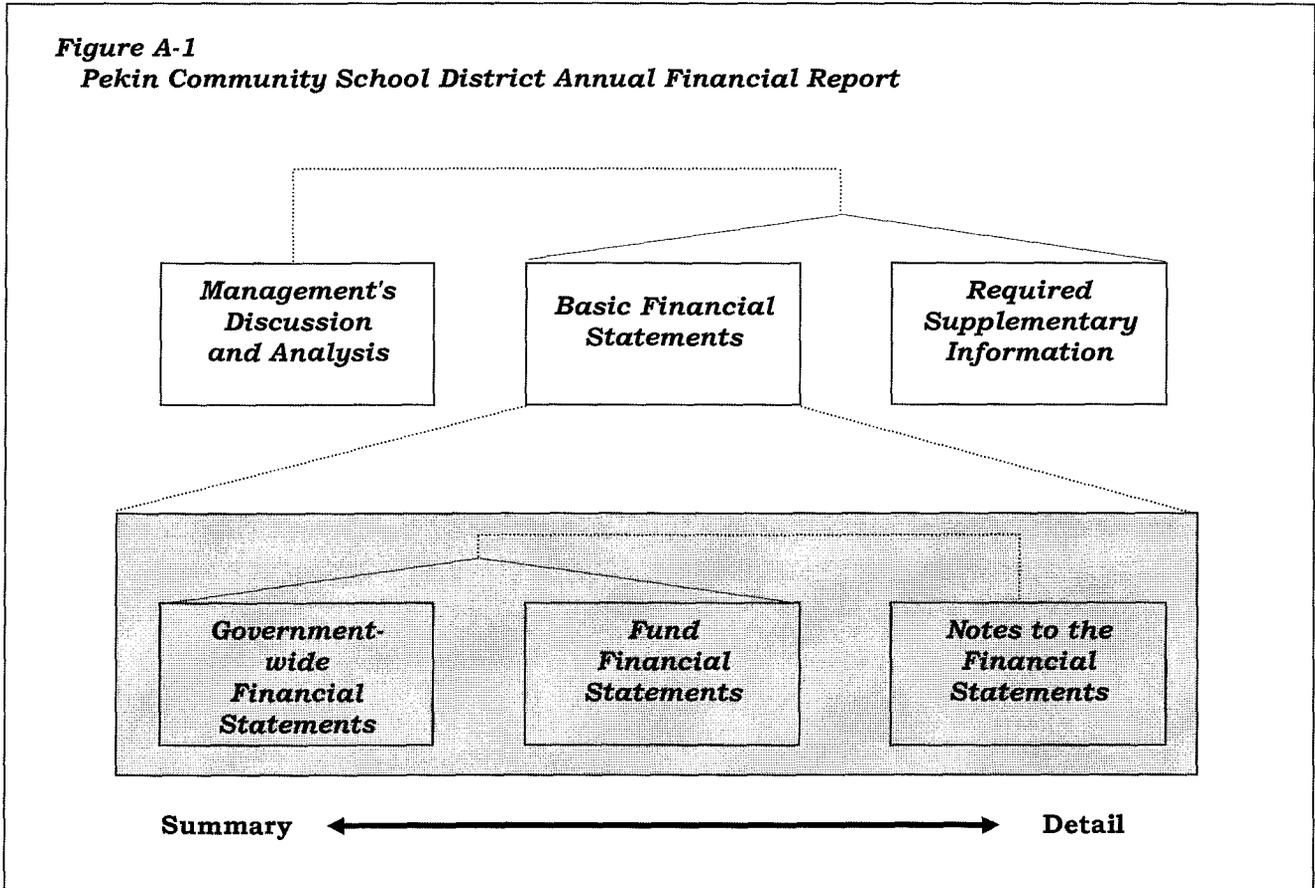


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has two Enterprise Funds, the School Nutrition Fund and the Day Care Fund.

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

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 2004
Current and other assets	\$ 4,374,597	61,465	4,436,062
Capital assets	3,166,147	544,354	3,710,501
Total assets	<u>7,540,744</u>	<u>605,819</u>	<u>8,146,563</u>
Long-term obligations	609,955	0	609,955
Other liabilities	3,830,871	1,612	3,832,483
Total liabilities	<u>4,440,826</u>	<u>1,612</u>	<u>4,442,438</u>
Net assets:			
Invested in capital assets, net of related debt	2,642,541	544,354	3,186,895
Restricted	170,588	0	170,588
Unrestricted	286,789	59,853	346,642
Total net assets	<u>\$ 3,099,918</u>	<u>604,207</u>	<u>3,704,125</u>

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

Figure A-4
Changes of Net Assets

	Governmental Activities	Business-type Activities	Total School District
Revenues:			
Program revenues:			
Charges for services	\$ 699,341	266,102	965,443
Operating grants and contributions and restricted interest	616,148	129,275	745,423
General revenues:			
Local tax	2,538,155	0	2,538,155
Unrestricted state grants	2,361,582	0	2,361,582
Unrestricted investment earnings	9,298	134	9,432
Total revenues	<u>6,224,524</u>	<u>395,511</u>	<u>6,620,035</u>
Program expenses:			
Governmental activities:			
Instructional	3,991,715	0	3,991,715
Support services	1,868,408	0	1,868,408
Non-instructional programs	113,669	395,730	509,399
Other expenses	345,537	0	345,537
Total expenses	<u>6,319,329</u>	<u>395,730</u>	<u>6,715,059</u>
Changes in net assets	<u>\$ (94,805)</u>	<u>(219)</u>	<u>(95,024)</u>

Property tax and unrestricted state grants account for 79% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 93% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$6,224,524 and expenses were \$6,319,329. In a difficult budget year, the District was able to balance the budget by trimming expenses; however the District was unable to contain costs to revenues received. This resulted in a decrease in the governmental activities net assets of \$5,381 from the previous year.

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	\$ 3,991,715	2,879,090
Support services	1,868,408	1,868,408
Non-instructional programs	113,669	113,669
Other expenses	345,537	142,673
Totals	<u>\$ 6,319,329</u>	<u>5,003,840</u>

- The cost financed by users of the District's programs was \$699,341.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$616,148.
- The net cost of governmental activities was financed with \$2,538,155 in property tax, \$2,361,582 in unrestricted state grants and \$9,298 interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$395,511 and expenses were \$395,730. The District's business-type activities include the School Nutrition and Day Care Funds. Revenues of these activities were comprised of charges for service, federal and state reimbursements and interest income.

During the year ended June 30, 2004, the District increased meal prices. This increase resulted in increased revenue to the School Nutrition Fund which the District has obligated for replacement of obsolete kitchen equipment in the next fiscal year.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Pekin Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$410,316, under last year's ending fund balances of \$613,771. The primary reason for the decrease in combined fund balances in fiscal 2004 is due to the increase in expenditures.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. Decline during the year in grants resulted in a decrease in revenues. The decrease in revenues as well as the District's increase in General Fund expenditures decreasing the District fund balance by \$51,588.
- The General Fund balance decreased from \$329,953 to \$278,365, due in part to the negotiated salary and benefits settlement and the prior year reduction in state aid and existing expenditure commitments of the District.
- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from a deficit of \$37,809 in fiscal 2003 to a deficit of \$84,848 in fiscal 2004. The expenditures increased and the District's revenues decreased in fiscal 2004 because of a federal award received prior year.

Proprietary Fund Highlights

The School Nutrition Fund net assets and Day Care Fund net assets decreased from \$604,426 at June 30, 2003 to \$604,207 at June 30, 2004, representing a decrease of approximately .03%. As previously noted, the District increased meal prices resulting in the increase in net assets.

BUDGETARY HIGHLIGHTS

The District's receipts were \$121,603 less than budgeted receipts, a variance of 2%. The most significant variance resulted from the District receiving less in state aid than originally anticipated.

Total disbursements were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget disbursements 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 disbursements for the year.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$3.7 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 3% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$252,284.

The original cost of the District's capital assets was \$6.9 million. Governmental funds account for \$6.2 million with the remainder of \$.7 million in the Proprietary, School Nutrition Fund and Day Care Fund.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$2,931,961 at June 30, 2004, compared to \$3,044,886 reported at June 30, 2003. This decrease resulted from fiscal 2004 depreciation expense.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities	Business-type Activities	Total
Land	\$ 236,245	0	236,245
Buildings	2,453,921	478,040	2,931,961
Improvements other than buildings	142,974	0	142,974
Machinery and equipment	333,007	66,314	399,321
Total	<u>\$ 3,166,147</u>	<u>544,354</u>	<u>3,710,501</u>

Long-Term Debt

At June 30, 2004, the District had \$609,955 in general obligation and other long-term debt outstanding. This represents a decrease of 21.7% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total
	2004	2003	Change
General obligation bonds	\$ 465,000	570,000	-18.4%
NSF loan	58,606	110,395	-46.9%
Early retirement	86,349	98,428	-12.3%
Totals	<u>\$ 609,955</u>	<u>778,823</u>	<u>-21.7%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The state's economy is showing limited signs of economic recovery. A weaker economy adversely impacts the amount of new general fund money available to the District.
- The District will negotiate a new agreement with the Pekin Education Association, (PEA), during fiscal 2004. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.
- The National School Fitness Foundation has declared bankruptcy and is no longer reimbursing districts for their participation in the "Health and Wellness Physical Education Program". This program was designed to equip schools with complete faculty training and support, education curriculum, and exercise machines. Settlement is unknown at this time.

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 Connie Linney, District Secretary/Treasurer, Pekin Community School District, 1062 Birch Ave, Packwood, Iowa, 52580.

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP (Note 4)	\$ 1,089,242	0	1,089,242
Other	493,090	47,207	540,297
Receivables:			
Property tax:			
Delinquent	39,719	0	39,719
Succeeding year	2,447,972	0	2,447,972
Income surtax	134,899	0	134,899
Interfund	120,000	0	120,000
Accounts	1,943	351	2,294
Accrued interest - ISCAP (Note 4)	1,966	0	1,966
Due from other governments	45,766	0	45,766
Inventories	0	13,907	13,907
Capital assets, net of accumulated depreciation (Note 5)	3,166,147	544,354	3,710,501
TOTAL ASSETS	7,540,744	605,819	8,146,563
LIABILITIES			
Interfund payable	120,000	0	120,000
Accounts payable	161,264	0	161,264
Salaries and benefits payable	2,434	0	2,434
Accrued interest payable	1,489	0	1,489
ISCAP warrants payable (Note 4)	1,093,000	0	1,093,000
ISCAP accrued interest payable (Note 4)	2,982	0	2,982
ISCAP unamortized premium	1,730	0	1,730
Deferred revenue:			
Succeeding year property tax	2,447,972	0	2,447,972
Other	0	1,612	1,612
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds payable	105,000	0	105,000
NSF loan payable	54,049	0	54,049
Early retirement payable	22,221	0	22,221
Portion due after one year:			
General obligation bonds payable	360,000	0	360,000
NSF loan payable	4,557	0	4,557
Early retirement payable	64,128	0	64,128
TOTAL LIABILITIES	4,440,826	1,612	4,442,438
NET ASSETS			
Investment in capital assets, net of related debt	2,642,541	544,354	3,186,895
Restricted for:			
Debt service	35,020	0	35,020
Early intervention	27,696	0	27,696
Talented and gifted	12,321	0	12,321
Teacher compensation	211	0	211
Management levy	17,544	0	17,544
Other special revenue purposes	77,796	0	77,796
Unrestricted	286,789	59,853	346,642
TOTAL NET ASSETS	\$ 3,099,918	604,207	3,704,125

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 2,507,316	260,590	394,983
Special instruction	708,829	0	18,301
Other instruction	775,570	438,751	0
	<u>3,991,715</u>	<u>699,341</u>	<u>413,284</u>
Support services:			
Student services	175,913	0	0
Instructional staff services	95,043	0	0
Administration services	528,593	0	0
Operation and maintenance of plant services	692,261	0	0
Transportation services	376,598	0	0
	<u>1,868,408</u>	<u>0</u>	<u>0</u>
Non-instructional programs:			
Food service operation	536	0	0
Community service and education operations	113,133	0	0
	<u>113,669</u>	<u>0</u>	<u>0</u>
Other expenditures:			
Facilities acquisitions	6,000	0	0
Long-term debt interest	23,101	0	0
AEA flowthrough	202,864	0	202,864
Depreciation(unallocated)*	113,572	0	0
	<u>345,537</u>	<u>0</u>	<u>202,864</u>
Total governmental activities	6,319,329	699,341	616,148
Business-Type activities:			
Non-instructional programs:			
Food service operations	228,497	103,249	129,275
Day care operations	167,233	162,853	0
Total business-type activities	<u>395,730</u>	<u>266,102</u>	<u>129,275</u>
Total	<u>\$ 6,715,059</u>	<u>965,443</u>	<u>745,423</u>

General Revenues:

Property tax levied for:
 General purposes
 Debt service
 Capital outlay
Unrestricted state grants
Unrestricted investment earnings

Total general revenues

Changes in net assets

Net assets beginning of year, as restated(Note 10)

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(1,851,743)	0	(1,851,743)
(690,528)	0	(690,528)
(336,819)	0	(336,819)
<u>(2,879,090)</u>	<u>0</u>	<u>(2,879,090)</u>
(175,913)	0	(175,913)
(95,043)	0	(95,043)
(528,593)	0	(528,593)
(692,261)	0	(692,261)
(376,598)	0	(376,598)
<u>(1,868,408)</u>	<u>0</u>	<u>(1,868,408)</u>
(536)	0	(536)
(113,133)	0	(113,133)
<u>(113,669)</u>	<u>0</u>	<u>(113,669)</u>
(6,000)	0	(6,000)
(23,101)	0	(23,101)
0	0	0
(113,572)	0	(113,572)
<u>(142,673)</u>	<u>0</u>	<u>(142,673)</u>
(5,003,840)	0	(5,003,840)
0	4,027	4,027
0	(4,380)	(4,380)
0	(353)	(353)
<u>(5,003,840)</u>	<u>(353)</u>	<u>(5,004,193)</u>
\$ 2,225,338	0	2,225,338
123,933	0	123,933
188,884	0	188,884
2,361,582	0	2,361,582
9,298	134	9,432
<u>4,909,035</u>	<u>134</u>	<u>4,909,169</u>
(94,805)	(219)	(95,024)
<u>3,194,723</u>	<u>604,426</u>	<u>3,799,149</u>
<u>\$ 3,099,918</u>	<u>604,207</u>	<u>3,704,125</u>

PEKIN 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 16)	\$	410,316
 <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.		3,166,147
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		134,899
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.		(1,489)
Long-term liabilities, including bonds payable, National School Fitness Loan payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(609,955)</u>
Net assets of governmental activites (page 13)	\$	<u>3,099,918</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Physical Plant and Equipment Levy	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax:				
Tuition	\$ 2,184,625	183,009	125,046	2,492,680
Other	260,590	0	0	260,590
State sources	86,987	2,528	358,534	448,049
Federal sources	2,805,586	431	385	2,806,402
Total revenues	171,328	0	0	171,328
	<u>5,509,116</u>	<u>185,968</u>	<u>483,965</u>	<u>6,179,049</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	2,425,569	0	70,754	2,496,323
Special instruction	708,829	0	0	708,829
Other instruction	429,001	0	346,569	775,570
	<u>3,563,399</u>	<u>0</u>	<u>417,323</u>	<u>3,980,722</u>
Support services:				
Student services	174,302	0	1,611	175,913
Instructional staff services	93,969	0	1,074	95,043
Administration services	509,825	0	12,202	522,027
Operation and maintenance of plant services	443,354	227,007	19,751	690,112
Student transportation services	404,359	0	11,556	415,915
	<u>1,625,809</u>	<u>227,007</u>	<u>46,194</u>	<u>1,899,010</u>
Non-instructional programs:				
Food service operation	0	0	536	536
Community service and education operations	113,133	0	0	113,133
	<u>113,133</u>	<u>0</u>	<u>536</u>	<u>113,669</u>
Other expenditures:				
Facilities acquisition	0	6,000	0	6,000
Long-term debt:				
Principal	0	0	156,789	156,789
Interest and fiscal charges	0	0	23,450	23,450
AEA flowthrough	202,864	0	0	202,864
	<u>202,864</u>	<u>6,000</u>	<u>180,239</u>	<u>389,103</u>
Total expenditures	<u>5,505,205</u>	<u>233,007</u>	<u>644,292</u>	<u>6,382,504</u>
Excess(deficiency) of revenues over(under) expenditures	3,911	(47,039)	(160,327)	(203,455)
Other financing sources(uses):				
Transfers in	0	0	55,499	55,499
Transfers out	(55,499)	0	0	(55,499)
Total other financing sources(uses)	<u>(55,499)</u>	<u>0</u>	<u>55,499</u>	<u>0</u>
Net change in fund balances	(51,588)	(47,039)	(104,828)	(203,455)
Fund balance beginning of year	329,953	(37,809)	321,627	613,771
Fund balance end of year	<u>\$ 278,365</u>	<u>(84,848)</u>	<u>216,799</u>	<u>410,316</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds (page 18) \$ (203,455)

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

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

Expenditures for capital assets	\$ 128,651	
Depreciation expense	<u>(234,693)</u>	(106,042)

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. 156,789

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. 349

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 45,475

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	<u>\$ 12,079</u>	<u>12,079</u>
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Changes in net assets of governmental activities (page 15) \$ (94,805)

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition	Day Care	Total
ASSETS			
Cash and cash equivalents	\$ 38,116	9,091	47,207
Accounts receivable	351	0	351
Inventories	13,907	0	13,907
Capital assets, net of accumulated depreciation (Note 5)	47,947	496,407	544,354
TOTAL ASSETS	100,321	505,498	605,819
LIABILITIES			
Deferred revenue:			
Other	1,612	0	1,612
TOTAL LIABILITIES	1,612	0	1,612
NET ASSETS			
Invested in capital assets, net of related debt	47,947	496,407	544,354
Unrestricted	50,762	9,091	59,853
TOTAL NET ASSETS	\$ 98,709	505,498	604,207

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition	Day Care	Total
Operating revenues:			
Local sources:			
Charges for service	\$ 103,249	162,853	266,102
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	72,948	111,091	184,039
Benefits	16,106	41,531	57,637
Purchased services	2,055	0	2,055
Supplies	131,797	2,631	134,428
Depreciation	5,591	11,980	17,571
Total operating expenses	228,497	167,233	395,730
Operating loss	(125,248)	(4,380)	(129,628)
Non-operating revenues:			
State sources	4,373	0	4,373
Federal sources	124,902	0	124,902
Interest income	134	0	134
Total non-operating revenues	129,409	0	129,409
Change in net assets	4,161	(4,380)	(219)
Net assets beginning of year, as restated(Note 10)	94,548	509,878	604,426
Net assets end of year	\$ 98,709	505,498	604,207

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition	Day Care	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 98,501	0	98,501
Cash received from miscellaneous operating activities	6,533	162,853	169,386
Cash payments to employees for services	(89,054)	(152,622)	(241,676)
Cash payments to suppliers for goods or services	(112,928)	(2,631)	(115,559)
Net cash provided by(used in) operating activities	(96,948)	7,600	(89,348)
Cash flows from non-capital financing activities:			
State grants received	4,373	0	4,373
Federal grants received	100,433	0	100,433
Net cash provided by non-capital financing activities	104,806	0	104,806
Cash flows from capital and related financing activities:			
Purchase of capital assets	(22,282)	0	(22,282)
Net cash used in capital and related financing activities	(22,282)	0	(22,282)
Cash flows from investing activities:			
Interest on investments	134	0	134
Net cash provided by investing activities	134	0	134
Net increase(decrease) in cash and cash equivalents	(14,290)	7,600	(6,690)
Cash and cash equivalents at beginning of year	52,406	1,491	53,897
Cash and cash equivalents at end of year	\$ 38,116	9,091	47,207
Reconciliation of operating loss to net cash provided by(used in) operating activities:			
Operating loss	\$ (125,248)	(4,380)	(129,628)
Adjustments to reconcile operating loss to net cash provided by(used in) operating activities:			
Commodities consumed	24,469	0	24,469
Depreciation	5,591	11,980	17,571
Increase in inventories	(2,973)	0	(2,973)
Decrease in accounts receivable	173	0	173
Decrease in accounts payable	(572)	0	(572)
Increase in deferred revenue	1,612	0	1,612
Net cash provided by(used in) operating activities	\$ (96,948)	7,600	(89,348)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and pooled investments	\$ 38,116	9,091	47,207
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
During the year ended June 30, 2004, the District received Federal commodities valued at \$24,469.			
SEE NOTES TO FINANCIAL STATEMENTS.			

PEKIN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

(1) Summary of Significant Accounting Policies

The Pekin 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 Pekin and Packwood, Iowa, and the predominate agricultural territory in Washington, Keokuk, Wapello, Jefferson. 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, Pekin 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 Pekin 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 Jefferson, Keokuk, Wapello and Washington 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 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 Physical Plant and Equipment Levy (PEEL) Fund is used to account for machinery and equipment expenditures as well as the improvements to capital facilities.

The District reports the following major proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund and Enterprise, Day Care Fund. The School Nutrition Fund is used to account for the food service

operations of the District. The Day Care Fund is used to account for the day care operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary 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 Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Liabilities 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 expense 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	\$ 2,000
Buildings	2,000
Land improvements	2,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Day Care Fund equipment	500
Other machinery and equipment	2,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

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

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

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been

recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

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

Long-term obligations - 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 Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in the non-instructional programs and other expenditures functional areas exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits in banks 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 \$111,952 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's

investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

(3) Transfers

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

Transfer to	Transfer from	Amount
Debt Service	General Fund	\$ 55,499

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

(4) Iowa School Cash Anticipation Program (ISCAP)

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

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2003-04B	1/30/04	1/28/05	\$ 361,445	1,966	359,000	2,982
2004-05A	6/30/04	6/30/05	727,797	0	734,000	0
Total			\$ 1,089,242	1,966	1,093,000	2,982

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that warrant proceeds may used in an amount equal 25% of the warrant amount. No ISCAP advance activity in the General Fund for the year ended June 30, 2004 was noted.

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04A	2.000%	1.310%
2003-04B	2.000%	1.392%
2004-05A	3.000%	2.463%

(5) Capital Assets

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

	Balance Beginning of Year, as restated (Note 10)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 236,245	0	0	236,245
Total capital assets not being depreciated	236,245	0	0	236,245
Capital assets being depreciated:				
Buildings	4,220,528	0	0	4,220,528
Land improvements	416,306	0	0	416,306
Machinery and equipment	1,229,005	128,651	0	1,357,656
Total capital assets being depreciated	5,865,839	128,651	0	5,994,490
Less accumulated depreciation for:				
Buildings	1,664,058	102,549	0	1,766,607
Land improvements	262,807	10,525	0	273,332
Machinery and equipment	903,030	121,619	0	1,024,649
Total accumulated depreciation	2,829,895	234,693	0	3,064,588
Total capital assets being depreciated, net	3,035,944	(106,042)	0	2,929,902
Governmental activities capital assets, net	\$ 3,272,189	(106,042)	0	3,166,147

	Balance Beginning of Year, as restated (Note 10)	Increases	Decreases	Balance End End of Year
Business-type activities:				
Capital assets being depreciated:				
Buildings	518,783	0	0	518,783
Machinery and equipment	119,196	22,282	0	141,478
Total capital assets being depreciated	637,979	22,282	0	660,261
Less accumulated depreciation for:				
Buildings	30,367	10,376	0	40,743
Machinery and equipment	67,969	7,195	0	75,164
Total accumulated depreciation	98,336	17,571	0	115,907
Total capital assets being depreciated, net	539,643	4,711	0	544,354
Business-type activities capital assets, net	\$ 539,643	4,711	0	544,354

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 35,803
Support services:		
Operation and maintenance of plant		11,721
Transportation		73,597
		<u>121,121</u>
Unallocated depreciation		<u>113,572</u>
Total governmental activities depreciation expense		<u>\$ 234,693</u>
Business-type activities:		
Food service operations		\$ 5,591
Day care operations		11,980
		<u>\$ 17,571</u>

(6) 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 bonds	\$ 570,000	0	105,000	465,000	105,000
NSF loan	110,395	0	51,789	58,606	54,049
Early retirement	98,428	22,012	34,091	86,349	22,221
Total	\$ 778,823	22,012	190,880	609,955	181,270

General Obligation Bonds

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

Year Ending June 30,	Bond Issue of June 1, 2002			
	Interest Rate	Principal	Interest	Total
2005	3.20 %	\$ 105,000	16,642	121,642
2006	3.45	115,000	13,283	128,283
2007	3.70	120,000	9,315	129,315
2008	3.90	125,000	4,875	129,875
Total		<u>\$ 465,000</u>	<u>44,115</u>	<u>509,115</u>

NSF Loan

Details of the District's June 30, 2004 National School Fitness indebtedness are as follows:

Year Ending June 30,	Loan Issue of July 1, 2002			
	Interest Rate	Principal	Interest	Total
2005	5.00 %	\$ 54,049	1,450	55,499
2006	4.80	4,557	74	4,631
Total		<u>\$ 58,606</u>	<u>1,524</u>	<u>60,130</u>

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 continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. The early retirement incentive for each eligible employee is equal to 50% of the employee's base salary calculated by using the current year regular salary schedule, less any other additional pay and subject to a maximum of \$20,000 per individual. Early retirement benefits paid during the year ended June 30, 2004 totaled \$34,091. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(7) 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 for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by State statute. The

District's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$195,091, \$198,184 and \$196,463 respectively, equal to the required contributions for each year.

(8) Risk Management

Pekin Community School District is a member in the Southeast Iowa School Employees Benefits Health Plan, and Iowa Code Chapter 28E organization. The Southeast Iowa School Employees Benefits Health Plan (SEISHP) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. SEISHP was for the purpose of managing and funding employee benefits. SEISHP provides coverage and protection in the following categories: medical and dental.

Each member's contributions to SEISHP funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, SEISHP'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 SEISHP for the year ended June 30, 2004 were \$443,405.

Payments from participating members are used to buy health insurance from Wellmark and paying dental and vision claims. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

Most 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. SEISHP will pay claims incurred before the termination date.

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

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$202,864 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.

(10) Accounting Change and Restatements

Governmental Accounting Standards Board(GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was

implemented during the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board (GASB) 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, and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; were implemented during the year ended June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include 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 amount for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

Beginning capital assets for governmental activities of \$6,336,691 were restated to \$6,102,084. The restatement primarily removed assets below the District's capitalization threshold. Beginning capital assets for business-type activities of \$87,122 were restated to \$637,919. The restatement primarily added the day care assets to the balance sheet.

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

	Funds			Total
	General	Physical Plant and Equipment Levy	Other Nonmajor Governmental Funds	
Net assets, June 30, 2003, as previously reported	\$ 329,953	(37,809)	321,627	613,771
GASB Interpretation 6 adjustments	0	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	<u>\$ 329,953</u>	<u>(37,809)</u>	<u>292,144</u>	<u>613,771</u>
GASB 34 adjustments:				
Capital assets, net of accumulated depreciation of \$2,829,895				3,272,189
Income surtax				89,424
Long-term liabilities:				
General obligation bonds payable			\$ 570,000	
NSF loan payable			110,395	
Early retirement payable			98,428	(778,823)
Accrued interest payable				(1,838)
Net assets, July 1, 2003, as restated				<u>\$ 3,194,723</u>

	Funds		Total
	School Nutrition	Day Care	
Net assets, June 30, 2003, as previously reported	\$ 94,548	1,491	96,039
Adjustment for reporting capital assets	0	508,387	508,387
Net assets, July 1, 2003, as restated for business-type funds	\$ 94,548	509,878	604,426

(11) Deficit Fund Balance

The Physical Plant and Equipment Levy (PPEL) Fund had a deficit unreserved fund balance of \$84,848 at June 30, 2004.

REQUIRED SUPPLEMENTAL INFORMATION

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
3,507,617	3,540,015	3,540,015	(32,398)
0	6,000	6,000	(6,000)
2,810,775	2,982,755	2,982,755	(171,980)
258,775	170,000	170,000	88,775
6,577,167	6,698,770	6,698,770	(121,603)
3,896,483	4,316,000	4,316,000	419,517
1,830,203	1,891,245	1,891,245	61,042
493,186	399,494	399,494	(93,692)
389,103	349,709	349,709	(39,394)
6,608,975	6,956,448	6,956,448	347,473
(31,808)	(257,678)	(257,678)	225,870
0	(50,000)	(50,000)	50,000
(31,808)	(307,678)	(307,678)	275,870
572,105	842,198	842,198	(270,093)
540,297	534,520	534,520	5,777

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

	Governmental Funds		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 6,204,340	(25,291)	6,179,049
Expenses	6,229,458	153,046	6,382,504
Net	(25,118)	(178,337)	(203,455)
Beginning fund balances	518,208	95,563	613,771
Ending fund balances	\$ 493,090	(82,774)	410,316

	Proprietary Funds		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 372,827	22,684	395,511
Expenses	379,517	16,213	395,730
Net	(6,690)	6,471	(219)
Beginning retained earnings, as restated (Note 10)	53,897	550,529	604,426
Ending retained earnings	\$ 47,207	557,000	604,207

PEKIN 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 functions, 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 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, 2004, disbursements in the non-instructional programs and other expenditures exceeded the amounts budgeted.

OTHER SUPPLEMENTAL INFORMATION

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

	Special Revenue Funds			Debt Service	Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Total Special Revenue		
ASSETS					
Cash and pooled investments	\$ 103,983	88,089	192,072	32,976	225,048
Receivables:					
Property tax:					
Current year delinquent	0	0	0	2,044	2,044
Succeeding year	50,000	0	50,000	121,943	171,943
Accounts	0	1,861	1,861	0	1,861
TOTAL ASSETS	\$ 153,983	89,950	243,933	156,963	400,896
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$ 0	12,154	12,154	0	12,154
Deferred revenue:					
Succeeding year property tax	50,000	0	50,000	121,943	171,943
Total liabilities	50,000	12,154	62,154	121,943	184,097
Fund equity:					
Reserved for Debt Service	0	0	0	35,020	35,020
Unreserved fund balance	103,983	77,796	181,779	0	181,779
	103,983	77,796	181,779	35,020	216,799
TOTAL LIABILITIES AND FUND EQUITY	\$ 153,983	89,950	243,933	156,963	400,896

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Total Special Revenues	Debt Service	
REVENUES:					
Local sources:					
Local tax	\$ 1,113	0	1,113	123,933	125,046
Other	3,600	354,934	358,534	0	358,534
State sources	0	0	0	385	385
Total revenues	4,713	354,934	359,647	124,318	483,965
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	70,754	0	70,754	0	70,754
Other instruction	0	346,569	346,569	0	346,569
Support services:					
Student support services	1,611	0	1,611	0	1,611
Instructional staff support services	1,074	0	1,074	0	1,074
Administration services	12,202	0	12,202	0	12,202
Operation and maintenance of plant services	19,751	0	19,751	0	19,751
Student transportation services	11,556	0	11,556	0	11,556
Non-instructional programs:					
Food service operation	536	0	536	0	536
Other expenditures:					
Long-term debt:					
Principal	0	0	0	156,789	156,789
Interest and fiscal charges	0	0	0	23,450	23,450
TOTAL EXPENDITURES	117,484	346,569	464,053	180,239	644,292
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(112,771)	8,365	(104,406)	(55,921)	(160,327)
OTHER FINANCING SOURCES:					
Transfer in	0	0	0	55,499	55,499
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(112,771)	8,365	(104,406)	(422)	(104,828)
FUND BALANCE BEGINNING OF YEAR	216,754	69,431	286,185	35,442	321,627
FUND BALANCE END OF YEAR	\$ 103,983	77,796	181,779	35,020	216,799

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PEKIN 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
Music Department	\$ 777	0	0	777
HS Cross Country	734	2,920	1,960	1,694
HS Boys Basketball	673	6,136	3,690	3,119
HS Football	10,686	56,302	57,459	9,529
HS Baseball	1,173	13,895	14,943	125
HS Boys Track	5,198	8,806	9,405	4,599
HS Wrestling	1,600	3,358	4,409	549
HS Girls Basketball	2,777	5,121	4,199	3,699
HS Volleyball	1,147	1,675	1,324	1,498
HS Softball	(194)	5,405	5,828	(617)
HS Girls Track	2,836	4,110	3,529	3,417
Athletics	900	22,103	18,358	4,645
Activity Charges	0	15,589	15,589	0
Class of 2005	0	12,595	9,313	3,282
Class of 2004	3,102	598	3,700	0
Alumni	1,941	797	0	2,738
Cheerleaders	1,719	1,184	678	2,225
Concessions	7,898	42,866	42,274	8,490
Dramatics/Musical	0	590	573	17
Spanish Club	196	448	140	504
Playground	522	0	522	0
FFA Club	4,699	31,144	30,380	5,463
FHA Club	2,859	7,702	5,780	4,781
Student Music	(26)	4,806	4,546	234
Student Insurance	0	1,417	1,417	0
Girls Letterclub	91	0	0	91
Boys Letterclub	307	0	0	307
Student Activity	1,733	38,722	39,006	1,449
Student Council	341	843	990	194
Yearbook	4,277	8,257	8,345	4,189
After Prom	742	7,671	7,876	537
Middle School	2,036	3,199	1,000	4,235
Elem. Concession	(110)	8,795	9,824	(1,139)
Fitness Room	1,022	3,705	4,478	249
Industrial Arts Club	179	0	0	179
Drill Team	559	892	976	475
8th Grade Field Trip	0	28,041	27,501	540
PTO-Fund Raiser	35	0	0	35
Wrestling Parents Fund	3,837	2,309	4,001	2,145
Elem Activities	3,165	2,933	2,556	3,542
Total	\$ 69,431	354,934	346,569	77,796

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 2,492,680	2,337,342	2,188,628	2,174,310
Tuition	260,590	209,423	172,102	185,775
Other	448,049	457,506	469,400	533,801
Intermediate sources	0	0	6,095	7,503
State sources	2,806,402	2,785,128	2,737,997	2,728,697
Federal sources	171,328	223,376	158,976	88,769
Total	\$ 6,179,049	6,012,775	5,733,198	5,718,855
Expenditures:				
Instruction:				
Regular instruction	\$ 2,496,323	2,594,765	2,392,937	2,379,669
Special instruction	708,829	707,410	706,776	617,591
Other instruction	775,570	811,248	881,304	803,487
Support services:				
Student services	175,913	165,370	163,343	155,586
Instructional staff services	95,043	109,772	137,123	111,585
Administration services	522,027	535,103	487,306	460,614
Operation and maintenance of plant services	690,112	474,132	480,665	668,396
Transportation services	415,915	394,318	455,997	451,434
Non-instructional programs	113,669	90,756	96,680	74,203
Other expenditures:				
Facilities acquisitions	6,000	0	470,000	67,435
Long-term debt:				
Principal	156,789	150,392	90,000	217,174
Interest and other charges	23,450	33,570	45,525	85,000
AEA flow-through	202,864	213,482	214,597	50,295
Total	\$ 6,382,504	6,280,318	6,622,253	6,142,469

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
Pekin Community School District:

We have audited the financial statements of Pekin Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated October 20, 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 Pekin 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.

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 items II-B-04 and II-K-04.

Internal Control Over Financial Reporting

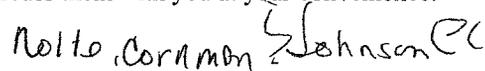
In planning and performing our audit, we considered Pekin Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over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

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

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

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Pekin Community School District and other parties to whom Pekin 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 Pekin 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.

October 20, 2004

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

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties - One important aspect of 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 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 continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted

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

Recommendation - The District should adopt a policy that would allow for submitting the checks to the Great Iowa Treasure Hunt and ensure the write off of outstanding checks after a reasonable length of time.

Response - We will comply.

Conclusion - Response accepted.

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

Part II: Other Findings Related to Statutory Reporting

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

II-B-04 Certified Budget - District disbursements for the year ended June 30, 2004 exceeded the amount budgeted in the non-instructional programs and other expenditures functional program areas.

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

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

Conclusion - Response accepted.

II-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

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

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 - The District had a deficit undesignated fund balance of \$84,848 in the Special Revenues, Physical Plant and Equipment Levy(PPEL) fund.

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

Response - We will monitor this fund and investigate any available options to eliminate this deficit.

Conclusion - Response accepted.