

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

JUNE 30, 2005

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PCM Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2004 Election)</b>		
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
<b>Board of Education (After September 2004 Election)</b>		
Joe Woestman	President	2006
Mike Streeter	Vice President	2005
Michael Naber	Board Member	2006
Kim Worth	Board Member	2005
Tom Timmons	Board Member	2006
Mike Schippers	Board Member	2007
Fred Peasley	Board Member	2007
<b>School Officials</b>		
Kirk Nelson	Superintendent	2005
Linda Beyer	District Secretary/Treasurer and Business Manager	2005
Brian Gruhn	Attorney	2005
Peter Pashler	Attorney	2005

**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 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, the business type activities, each major fund and the aggregate remaining fund information of PCM Community School District, Prairie City Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, the business-type activities, each major fund, and the aggregate remaining fund information of the PCM Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated September 8, 2005 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, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 34 through 37 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting 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 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, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary 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.

September 8, 2005

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

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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, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2005 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$7,037,856 in fiscal 2004 to \$7,480,518 in fiscal 2005, while General Fund expenditures increased from \$7,420,235 in fiscal 2004 to \$7,755,250 in fiscal 2005. This resulted in a decrease in the District's General Fund balance from \$1,276,966 in fiscal 2004 to a balance of \$1,004,084 in fiscal 2005, a 21% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in state revenue in fiscal 2005. The increase in expenditures was due primarily to an increase in special instruction and transportation costs. One reason the General Fund balance decreased is because revenues, despite the increase, were less than expenditures.
- An increase in interest rates during the past fiscal year, combined with more cash available to be invested, resulted in interest earnings in the General Fund alone to increase from \$15,888 in fiscal year 2004 to \$22,823 in fiscal year 2005.

### **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 the School District.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

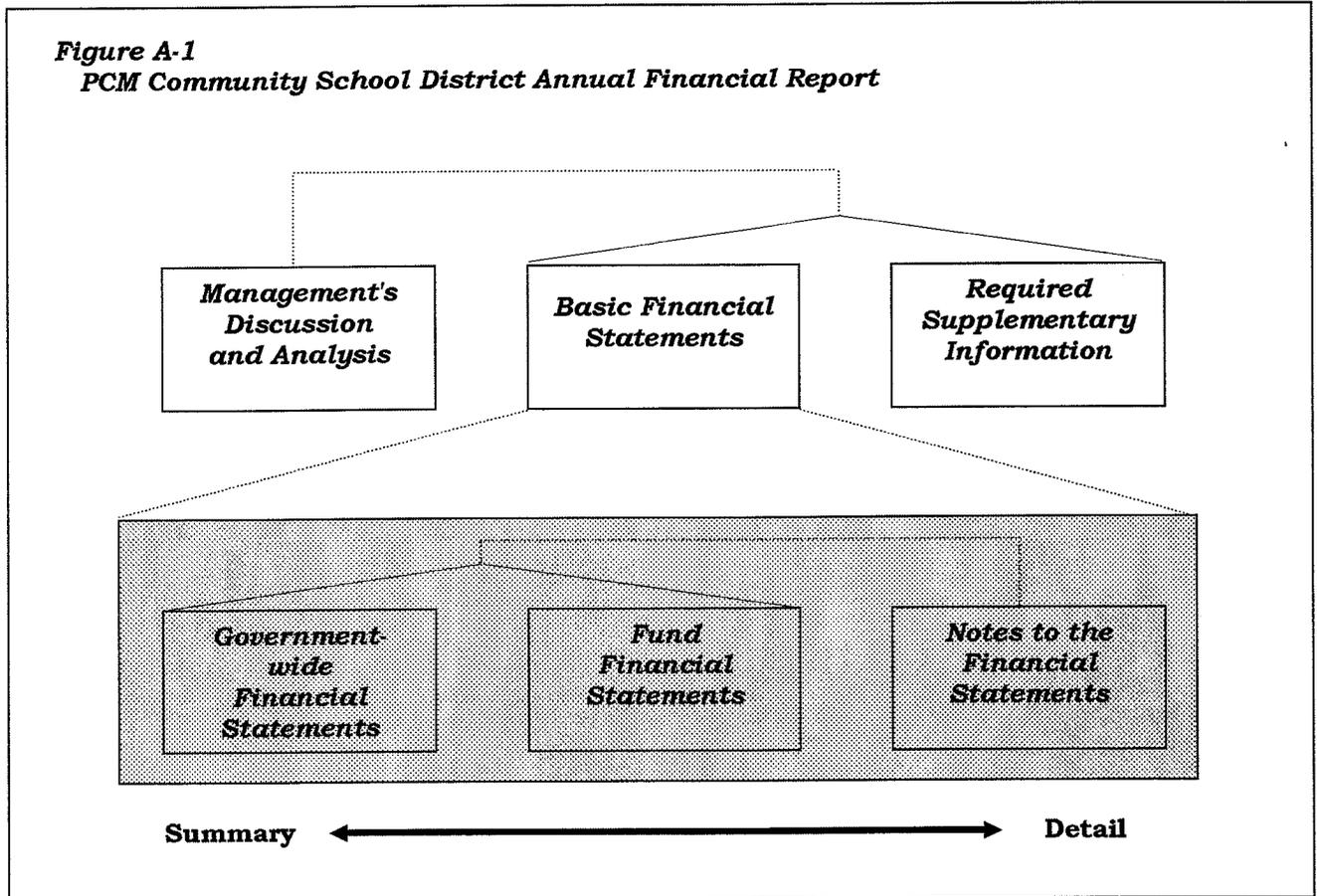


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

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

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## 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, 2005.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Current and other assets	\$ 5,432,117	5,136,641	19,932	53,177	5,452,049	5,189,818	5.05%
Capital assets	3,983,826	4,092,445	46,181	53,891	4,030,007	4,146,336	-2.81%
Total assets	9,415,943	9,229,086	66,113	107,068	9,482,056	9,336,154	1.56%
Long-term obligations	1,681,344	1,776,109	0	0	1,681,344	1,776,109	-5.34%
Other liabilities	2,904,414	2,839,009	16,609	6,042	2,921,023	2,845,051	2.67%
Total liabilities	4,585,758	4,615,118	16,609	6,042	4,602,367	4,621,160	-0.41%
Net assets:							
Invested in capital assets, net of related debt	2,760,920	2,719,930	46,181	53,891	2,807,101	2,773,821	1.20%
Restricted	1,033,725	543,502	0	0	1,033,725	543,502	90.20%
Unrestricted	1,035,540	1,350,536	3,323	47,135	1,038,863	1,397,671	-25.67%
Total net assets	\$ 4,830,185	4,613,968	49,504	101,026	4,879,689	4,714,994	3.49%

The District's combined net assets increased by 3.49%, or \$164,695 over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$490,223 or 90.2% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day –to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$358,808, or 25.67%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2005.

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Revenues:							
Program revenues:							
Charges for services	\$ 672,192	766,934	302,009	293,766	974,201	1,060,700	-8.15%
Operating grants and contributions and restricted interest	911,890	767,925	121,762	133,119	1,033,652	901,044	14.72%
General revenues:							
Local tax	3,391,279	3,195,617	0	0	3,391,279	3,195,617	6.12%
Unrestricted state grants	3,715,803	3,439,528	0	0	3,715,803	3,439,528	8.03%
Other	24,673	20,190	231	346	24,904	20,536	21.27%
Total revenues	8,715,837	8,190,194	424,002	427,231	9,139,839	8,617,425	6.06%
Program expenses:							
Governmental activities:							
Instructional	5,709,002	5,507,934	0	0	5,709,002	5,507,934	3.65%
Support services	2,201,247	2,095,687	0	0	2,201,247	2,095,687	5.04%
Non-instructional programs	0	15,381	475,524	438,794	475,524	454,175	4.70%
Other expenses	589,371	514,926	0	0	589,371	514,926	14.46%
Total expenses	8,499,620	8,133,928	475,524	438,794	8,975,144	8,572,722	4.69%
Changes in net assets	216,217	56,266	(51,522)	(11,563)	164,695	44,703	268.42%
Net assets beginning of year	4,613,968	4,557,702	101,026	112,589	4,714,994	4,670,291	0.96%
Net assets end of year	\$ 4,830,185	4,613,968	49,504	101,026	4,879,689	4,714,994	3.49%

Property tax and unrestricted state grants account for 78% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 88% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$8,715,837 and expenses were \$8,499,620. 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, and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 5,709,002	4,404,963
Support services	2,201,247	2,196,430
Other expenses	589,371	314,145
Totals	\$ 8,499,620	6,915,538

- The cost financed by users of the District's programs was \$672,192.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$911,890.
- The net cost of governmental activities was financed with \$3,391,279 in local tax, \$3,715,803 in unrestricted state grants, and \$22,823 in interest income.

**Business-Type Activities**

Revenues of the District's business-type activities were \$424,002 and expenses were \$475,524. 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 \$2,386,265, compared to last year's ending fund balances of \$2,141,742.

**Governmental Fund Highlights**

- The District's decreasing General Fund financial position is the product of many factors. Increase in the state revenues 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 \$238,688 in 2004, to \$242,341 in 2005, due to controlled spending in Management Fund expenditures.
- The Physical Plant and Equipment Levy (PPEL) fund balance increased from \$128,604 to \$137,145, due to revenues surpassing expenditures during fiscal 2005.
- The Capital Projects fund balance increased from \$231,822 to \$739,218, due to the increase in local option sales and service tax and the revenue bond agreement entered into with Metro Waste Authority.
- The Debt Service fund balance increased from \$111,140 to \$114,096, due to reduced debt expenditures for the year.
- The Student Activity and Expendable Trust fund combined balance decreased from \$154,522, to \$149,381, due to an decrease in revenues in both funds.

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## Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$101,026 at June 30, 2004 to \$49,504 at June 30, 2005, representing a decrease of approximately 51%.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$3,872 less than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year. Unfortunately, during fiscal 2005, the District exceeded budgeted expenditures in the non-instructional programs area.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2005, the District had invested \$4 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of less than 1% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$238,173.

The original cost of the District's capital assets was \$7,912,655. Governmental funds account for \$7,665,796 with \$246,859 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 \$315,261 reported at June 30, 2005. This decrease resulted from purchases made during the year not exceeding the deletion value of assets during the year.

Figure A-6

	Capital Assets, Net of Depreciation						
	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2005	2004	2005	2004	2005	2004	2003-04
Land	\$ 156,462	156,462	0	0	156,462	156,462	0.00%
Buildings	3,512,103	3,577,874	0	0	3,512,103	3,577,874	-1.87%
Machinery and equipment	315,261	358,109	46,181	53,891	361,442	412,000	-13.99%
Total	\$ 3,983,826	4,092,445	46,181	53,891	4,030,007	4,148,340	-2.94%

### Long-Term Debt

At June 30, 2005, the District had long-term debt outstanding of \$1,681,344 in general obligation bonds, revenue bonds, real estate contracts and early retirement. This represents a decrease of approximately 5.3% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding general obligation bonds payable of \$1,315,000 at June 30, 2005, for the Prairie City Elementary.

The District had revenue bonds payable of \$175,000 at June 30, 2005, for the to be constructed nature and education center that will be located at the District's high school site.

The District had a real estate contract payable of \$152,000 at June 30, 2005, for the Monroe Motors building.

The District also had total outstanding early retirement payable of \$39,344 at June 30, 2005.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	2005	2004	
General obligation bonds	\$ 1,315,000	1,470,000	-10.5%
Revenue bonds	175,000	0	100.0%
Real estate contract	152,000	240,000	-36.7%
Early retirement	39,344	66,109	100.0%
Total	<u>\$ 1,681,344</u>	<u>1,776,109</u>	<u>-5.3%</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:

- Increases in health insurance premiums, along with salaries and benefits for the employees is always a concern for the District.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- Low allowable growth over several years and enrollment fluctuations is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Development along Highway 163 has the potential for new economic opportunities, which could positively affect the District in the future.

## 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 Kirk Nelson, District Superintendent, 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, 2005

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 2,147,805	2,177	2,149,982
Receivables:			
Property tax:			
Delinquent	138,736	0	138,736
Succeeding year	2,809,522	0	2,809,522
Income surtax	158,750	0	158,750
Interfund	10,000	0	10,000
Accounts	15,144	0	15,144
Due from other governments	152,160	0	152,160
Inventories	0	17,755	17,755
Capital assets, net of accumulated depreciation(Note 5)	3,983,826	46,181	4,030,007
<b>TOTAL ASSETS</b>	<b>9,415,943</b>	<b>66,113</b>	<b>9,482,056</b>
<b>LIABILITIES</b>			
Interfund payable	0	10,000	10,000
Accounts payable	77,580	550	78,130
Interest payable	7,147	0	7,147
ISEBA assessment payable(Note 8)	10,165	0	10,165
Deferred revenue:			
Succeeding year property tax	2,809,522	0	2,809,522
Other	0	6,059	6,059
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds	165,000	0	165,000
Revenue bonds	25,000	0	25,000
Real estate contract payable	92,400	0	92,400
Early retirement	24,854	0	24,854
Portion due after one year:			
General obligation bonds	1,150,000	0	1,150,000
Revenue bonds	150,000	0	150,000
Real estate contract payable	59,600	0	59,600
Early retirement	14,490	0	14,490
<b>TOTAL LIABILITIES</b>	<b>4,585,758</b>	<b>16,609</b>	<b>4,602,367</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	2,760,920	46,181	2,807,101
Restricted for:			
Early intervention	58,271	0	58,271
Talented and gifted	52,490	0	52,490
Teacher quality	74	0	74
Phase III	1,364	0	1,364
Technology	4,930	0	4,930
Management levy	202,997	0	202,997
Capital projects	564,218	0	564,218
Other special revenue purposes	149,381	0	149,381
Unrestricted	1,035,540	3,323	1,038,863
<b>TOTAL NET ASSETS</b>	<b>\$ 4,830,185</b>	<b>49,504</b>	<b>4,879,689</b>

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2005

	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 3,616,510	261,338	585,449
Special instruction	1,309,659	31,720	46,398
Other instruction	782,833	379,134	0
	<u>5,709,002</u>	<u>672,192</u>	<u>631,847</u>
Support services:			
Student services	215,362	0	0
Instructional staff services	245,061	0	0
Administration services	647,847	0	0
Operation and maintenance of plant services	636,982	0	0
Transportation services	455,995	0	4,817
	<u>2,201,247</u>	<u>0</u>	<u>4,817</u>
Other expenditures:			
Facilities acquisitions	108,376	0	0
Long-term debt interest	79,798	0	0
AEA flowthrough	275,226	0	275,226
Depreciation(unallocated)*	125,971	0	0
	<u>589,371</u>	<u>0</u>	<u>275,226</u>
Total governmental activities	8,499,620	672,192	911,890
Business-Type activities:			
Non-instructional programs:			
Nutrition services	475,524	302,009	121,762
Total business-type activities	<u>475,524</u>	<u>302,009</u>	<u>121,762</u>
Total	<u>\$ 8,975,144</u>	<u>974,201</u>	<u>1,033,652</u>

**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

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
(2,769,723)	0	(2,769,723)
(1,231,541)	0	(1,231,541)
(403,699)	0	(403,699)
(4,404,963)	0	(4,404,963)
(215,362)	0	(215,362)
(245,061)	0	(245,061)
(647,847)	0	(647,847)
(636,982)	0	(636,982)
(451,178)	0	(451,178)
(2,196,430)	0	(2,196,430)
(108,376)	0	(108,376)
(79,798)	0	(79,798)
0	0	0
(125,971)	0	(125,971)
(314,145)	0	(314,145)
(6,915,538)	0	(6,915,538)
0	(51,753)	(51,753)
0	(51,753)	(51,753)
(6,915,538)	(51,753)	(6,967,291)
\$ 2,561,970	0	2,561,970
222,842	0	222,842
185,248	0	185,248
421,219	0	421,219
3,715,803	0	3,715,803
22,823	231	23,054
1,850	0	1,850
7,131,755	231	7,131,986
216,217	(51,522)	164,695
4,613,968	101,026	4,714,994
\$ 4,830,185	49,504	4,879,689

PCM COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	Special				Total
	General	Revenue- Manage- ment	Capital Projects	Other Governmental Funds	
<b>ASSETS</b>					
Cash and pooled investments	\$ 854,916	239,406	658,555	394,928	2,147,805
Receivables:					
Property tax					
Delinquent	47,142	2,515	80,663	8,416	138,736
Succeeding year	2,266,204	121,000	0	422,318	2,809,522
Income surtax	158,750	0	0	0	158,750
Interfund	10,000	0	0	0	10,000
Accounts	14,724	420	0	0	15,144
Due from other governments	152,160	0	0	0	152,160
<b>TOTAL ASSETS</b>	<b>\$ 3,503,896</b>	<b>363,341</b>	<b>739,218</b>	<b>825,662</b>	<b>5,432,117</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 74,858	0	0	2,722	77,580
Deferred revenue:					
Succeeding year property tax	2,266,204	121,000	0	422,318	2,809,522
Income surtax	158,750	0	0	0	158,750
Total liabilities	2,499,812	121,000	0	425,040	3,045,852
Fund balances:					
Reserved for:					
Early intervention	58,271	0	0	0	58,271
Talented and gifted	52,490	0	0	0	52,490
Teacher quality	74	0	0	0	74
Phase III	1,364	0	0	0	1,364
Technology	4,930	0	0	0	4,930
Debt service	0	0	0	114,096	114,096
Unreserved:					
Undesignated	886,955	242,341	739,218	286,526	2,155,040
Total fund balances	1,004,084	242,341	739,218	400,622	2,386,265
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 3,503,896</b>	<b>363,341</b>	<b>739,218</b>	<b>825,662</b>	<b>5,432,117</b>

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2005

<b>Total fund balances of governmental funds (page 16)</b>	\$	2,386,265
 <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.		3,983,826
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.		(7,147)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		158,750
ISEBA assessment payable, is not yet due and payable in the current period due to the completion of a lawsuit settlement and, therefore, is not reported as a liability in the governmental funds.		(10,165)
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.		<u>(1,681,344)</u>
<b>Net assets of governmental activites (page 13)</b>	<b>\$</b>	<b><u>4,830,185</u></b>

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2005

	General	Special Revenue- Manage- ment	Capital Projects	Other Governmental Funds	Total
<b>REVENUES:</b>					
Local sources:					
Local tax	\$ 2,443,485	121,102	0	408,090	2,972,677
LOSST	0	0	421,219	0	421,219
Tuition	293,058	0	0	0	293,058
Other	116,622	3,120	370	281,845	401,957
State sources	4,330,968	81	0	259	4,331,308
Federal sources	296,385	0	0	0	296,385
Total revenues	<u>7,480,518</u>	<u>124,303</u>	<u>421,589</u>	<u>690,194</u>	<u>8,716,604</u>
<b>EXPENDITURES:</b>					
Current:					
Instruction:					
Regular instruction	3,545,366	43,572	0	0	3,588,938
Special instruction	1,309,659	0	0	0	1,309,659
Other instruction	499,506	0	0	283,327	782,833
	<u>5,354,531</u>	<u>43,572</u>	<u>0</u>	<u>283,327</u>	<u>5,681,430</u>
Support services:					
Student services	214,827	535	0	0	215,362
Instructional staff services	245,061	0	0	0	245,061
Administration services	646,313	1,534	0	0	647,847
Operation and maintenance of plant services	594,532	52,187	0	0	646,719
Transportation services	424,760	20,613	0	0	445,373
	<u>2,125,493</u>	<u>74,869</u>	<u>0</u>	<u>0</u>	<u>2,200,362</u>
Non-instructional:					
Food service operations	0	2,209	0	0	2,209
Other expenditures:					
Facilities acquisitions	0	0	89,193	79,383	168,576
Long-term debt:					
Principal	0	0	0	243,000	243,000
Interest and fiscal charges	0	0	0	78,128	78,128
AEA flowthrough	275,226	0	0	0	275,226
	<u>275,226</u>	<u>0</u>	<u>89,193</u>	<u>400,511</u>	<u>764,930</u>
Total expenditures	<u>7,755,250</u>	<u>120,650</u>	<u>89,193</u>	<u>683,838</u>	<u>8,648,931</u>
Excess(deficiency) of revenues over(under) expenditures	(274,732)	3,653	332,396	6,356	67,673
Other financing sources(uses):					
Transfers in	0	0	0	100,000	100,000
Transfers out	0	0	0	(100,000)	(100,000)
Sales of equipment and materials	1,850	0	0	0	1,850
Proceeds from sale of bonds	0	0	175,000	0	175,000
Total other financing sources(uses)	<u>1,850</u>	<u>0</u>	<u>175,000</u>	<u>0</u>	<u>176,850</u>
Net change in fund balances	(272,882)	3,653	507,396	6,356	244,523
Fund balance beginning of year	<u>1,276,966</u>	<u>238,688</u>	<u>231,822</u>	<u>394,266</u>	<u>2,141,742</u>
Fund balance end of year	<u>\$ 1,004,084</u>	<u>242,341</u>	<u>739,218</u>	<u>400,622</u>	<u>2,386,265</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, 2005

Net change in fund balances - total governmental funds (page 18) \$ 244,523

**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. Deprecation expense exceeded capital outlays expenditures in the current year, as follows:

Capital expenditures	\$ 119,615	
Depreciation expense	<u>(228,234)</u>	(108,619)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the 'Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmentnal funds, but the repaymetn reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:

Issued	\$ (175,000)	
Repaid	<u>243,000</u>	68,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

(1,670)

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	\$ 26,765	
ISEBA assessment	<u>(10,165)</u>	16,600

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

(2,617)

**Changes in net assets of governmental activities (page 15) \$ 216,217**

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF NET ASSETS  
 PROPRIETARY FUND  
 JUNE 30, 2005

	<u>School</u> <u>Nutrition</u>
ASSETS	
Cash and cash equivalents	\$ 2,177
Inventories	17,755
Capital assets, net of accumulated depreciation	<u>46,181</u>
TOTAL ASSETS	<u>66,113</u>
LIABILITIES	
Accounts payable	550
Interfund payable	10,000
Deferred revenues	<u>6,059</u>
TOTAL LIABILITES	<u>16,609</u>
NET ASSETS	
Invested in capital assets, net of related debt	46,181
Unrestricted	<u>3,323</u>
TOTAL NET ASSETS	<u>\$ 49,504</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, 2005

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Other local sources:	
Sale of lunches and breakfasts:	
Students	\$ 218,236
Adults	13,440
A la carte	54,760
Miscellaneous	15,573
TOTAL OPERATING REVENUES	302,009
OPERATING EXPENSES:	
Food service operations:	
Salaries	148,665
Benefits	65,092
Services	58,457
Supplies	193,371
Depreciation	9,939
TOTAL OPERATING EXPENSES	475,524
OPERATING LOSS	(173,515)
NON-OPERATING REVENUES:	
Interest	231
State sources	5,562
Federal sources	116,200
TOTAL NON-OPERATING REVENUES	121,993
Net loss	(51,522)
Net assets at beginning of year	101,026
Net assets end of year	\$ 49,504

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2005

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 286,453
Cash received from miscellaneous operating activities	15,573
Cash payments to employees for services	(213,757)
Cash payments to suppliers for goods or services	(233,568)
Net cash used in operating activities	(145,299)
Cash flows from non-capital financing activities:	
State grants received	5,562
Federal grants received	94,788
Net cash provided by non-capital financing activities	100,350
Cash flows from investing activities:	
Interest on investments	231
Net cash provided by investing activities	231
Cash flows from capital and other financing activities:	
Borrowing from General Fund	10,000
Purchase of assets	(2,229)
Net cash provided by capital and other financing activities	7,771
Net decrease in cash and cash equivalents	(36,947)
Cash and cash equivalents at beginning of year	39,124
Cash and cash equivalents at end of year	\$ 2,177
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (173,515)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	21,412
Depreciation	9,939
Increase in inventories	(3,702)
Increase in deferred revenue	17
Net cash used in operating activities	\$ (145,299)

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

Current assets:	
Cash and pooled investments	\$ 2,177

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2005, the District received Federal commodities valued at \$21,412.

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUND  
 YEAR ENDED JUNE 30, 2005

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

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

(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, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

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 Lives (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, 2005, disbursements in the non-instructional programs functional area exceeded the amount budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2005 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 of 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.

At June 30, 2005, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 8,950

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

**(3) Interfund Receivables and Payables**

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Receivable Fund	Payable Fund	Amount
General	Nutrition	\$ 10,000

**(4) Transfers**

The detail of transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
Debt Service	PPEL	\$ 100,000

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

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
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	60,200	0	6,189,238
Machinery and equipment	1,294,353	59,415	33,672	1,320,096
Total capital assets being depreciated	7,423,391	119,615	33,672	7,509,334
Less accumulated depreciation for:				
Buildings	2,551,164	125,971	0	2,677,135
Machinery and equipment	936,244	102,263	33,672	1,004,835
Total accumulated depreciation	3,487,408	228,234	33,672	3,681,970
Total capital assets being depreciated, net	3,935,983	(108,619)	0	3,827,364
Governmental activities capital assets, net	\$ 4,092,445	(108,619)	0	3,983,826

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 289,533	20,095	62,769	246,859
Less accumulated depreciation	235,642	9,939	44,903	200,678
Business-type activities capital assets, net	<u>\$ 53,891</u>	<u>10,156</u>	<u>17,866</u>	<u>46,181</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 34,291
Support services:		
Operation and maintenance of plant services		3,250
Transportation		64,722
		<u>102,263</u>
Unallocated depreciation		<u>125,971</u>
Total governmental activities depreciation expense		<u>\$ 228,234</u>
Business-type activities:		
Food services		<u>\$ 9,939</u>

#### (6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation	\$ 1,470,000	0	155,000	1,315,000	165,000
Revenue bonds	0	175,000	0	175,000	25,000
Real estate contract	240,000	0	88,000	152,000	92,400
Early retirement	66,109	0	26,765	39,344	24,854
Total	<u>\$ 1,776,109</u>	<u>175,000</u>	<u>269,765</u>	<u>1,681,344</u>	<u>\$ 307,254</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, 2005 real estate contract Indebtedness, which is paid from the Physical Plant and Equipment Levy Fund, is as follows:

Year Ending June 30,	Interest Rate	Real Estate Contract issue dated June 1, 2003		
		Principal	Interest	Total
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>\$ 152,000</u>	<u>12,459</u>	<u>164,459</u>

General Obligation

Details of the District's June 30, 2005 General Obligation bonds indebtedness is as follows:

Year Ending June 30,	Interest Rate	Bond issue dated August 1, 1998		
		Principal	Interest	Total
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		\$ 1,315,000	245,500	1,560,500

Revenue Bonds Payable

During the year ended June 30, 2005, the District entered into an agreement with Metro Waste Authority providing for \$175,000 for building the nature and education center that will be located on the premises of the District. The note is scheduled to be repaid April 1, 2012.

Details of the District's June 30, 2005 Revenue Bond indebtedness is as follows:

Year Ending June 30,	Interest Rate	Bond issue dated April 13, 2005		
		Principal	Interest	Total
2006	4.25 % \$	25,000	6,791	31,791
2007	4.25	25,000	5,977	30,977
2008	4.25	25,000	4,914	29,914
2009	4.25	25,000	3,852	28,852
2010	4.25	25,000	2,789	27,789
2011	4.25	25,000	1,727	26,727
2012	4.25	25,000	664	25,664
Total		\$ 175,000	26,713	201,713

**(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. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$286,420, \$272,798, and 265,103 respectively, equal to the required contributions for each year.

**(8) Risk Management**

The District was a member in the Iowa School Employee Benefits Association (ISEBA), an Iowa Code Chapter 28E organization until June 30, 2004. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members that terminated from ISEBA on June 30, 2004 received an assessment in December 2004 which is due July 1, 2005. The total assessment for terminated members is approximately \$3.9 million. The District's share of this assessment was \$10,165 which is recorded as a liability as of June 30, 2005.

The 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 \$275,226 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(10) Budget Overexpenditure**

Per the Code of Iowa, disbursements may not legally exceed budgeted expenditures at the functional area level. During the year ended June 30, 2005, disbursements in the non-instructional programs functional area exceeded the amounts budgeted.

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, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 3,831,493	282,257
State sources	4,273,740	5,562
Federal sources	531,943	116,200
Total receipts	<u>8,637,176</u>	<u>404,019</u>
Disbursements:		
Instruction	5,611,634	0
Support services	2,216,669	0
Non-instructional programs	2,209	460,966
Other expenditures	764,930	0
Total disbursements	<u>8,595,442</u>	<u>460,966</u>
Excess(deficiency) of receipts over(under) disbursements	41,734	(56,947)
Other financing sources, net	<u>165,000</u>	<u>10,000</u>
Excess(deficiency) of receipts and other financing sources over(under) disbursements	206,734	(46,947)
Balance beginning of year	<u>1,951,071</u>	<u>39,124</u>
Balance end of year	<u>\$ 2,157,805</u>	<u>(7,823)</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
4,113,750	4,430,244	4,430,244	(316,494)
4,279,302	4,367,823	4,367,823	(88,521)
648,143	247,000	247,000	401,143
<u>9,041,195</u>	<u>9,045,067</u>	<u>9,045,067</u>	<u>(3,872)</u>
5,611,634	5,933,000	5,933,000	321,366
2,216,669	2,450,000	2,450,000	233,331
463,175	440,000	440,000	(23,175)
764,930	1,053,217	1,053,217	288,287
<u>9,056,408</u>	<u>9,876,217</u>	<u>9,876,217</u>	<u>819,809</u>
(15,213)	(831,150)	(831,150)	815,937
175,000	0	0	175,000
159,787	(831,150)	(831,150)	990,937
<u>1,990,195</u>	<u>2,020,762</u>	<u>2,020,762</u>	<u>(30,567)</u>
<u>2,149,982</u>	<u>1,189,612</u>	<u>1,189,612</u>	<u>960,370</u>

PCM COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE-  
 BUDGET TO GAAP RECONCILIATION  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2005

	Governmental Fund Types		
	Cash Basis	Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 8,637,176	79,428	8,716,604
Expenses	8,595,442	53,489	8,648,931
Net	41,734	25,939	67,673
Other financing sources, net	165,000	11,850	176,850
Beginning fund balances	1,951,071	190,671	2,141,742
Ending fund balances	\$ 2,157,805	228,460	2,386,265

	Proprietary Fund Type		
	Cash Basis	Enterprise Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 382,607	41,395	424,002
Expenses	439,554	35,970	475,524
Net	(56,947)	5,425	(51,522)
Other financing sources, net	10,000	(10,000)	0
Beginning retained earnings	39,124	61,902	101,026
Ending retained earnings	\$ (7,823)	57,327	49,504

PCM COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2005

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the 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 functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2005, disbursements in the non-instructional programs functional area exceeded the amount budgeted.

OTHER SUPPLEMENTAL INFORMATION

PCM COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2005

	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	\$ 133,183	147,839	4,264	285,286	109,642	394,928
Receivables:						
Property tax:						
Current year delinquent	3,962	0	0	3,962	4,454	8,416
Succeeding year	198,138	0	0	198,138	224,180	422,318
TOTAL ASSETS	\$ 335,283	147,839	4,264	487,386	338,276	825,662
LIABILITIES AND FUND EQUITY						
Liabilities:						
Accounts payable	\$ 0	2,722	0	2,722	0	2,722
Deferred revenue:						
Succeeding year property tax	198,138	0	0	198,138	224,180	422,318
	198,138	2,722	0	200,860	224,180	425,040
Fund equity:						
Fund balances:						
Reserved:						
Debt service	0	0	0	0	114,096	114,096
Unreserved:						
Undesignated	137,145	145,117	4,264	286,526	0	286,526
Total fund balances	137,145	145,117	4,264	286,526	114,096	400,622
TOTAL LIABILITIES AND FUND EQUITY	\$ 335,283	147,839	4,264	487,386	338,276	825,662

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, 2005

	Special Revenue					
	Physical Plant & Equipment Levy	Student Activity	Expendable Trust	Total Special Revenue	Debt Service	Total Nonmajor Governmental Funds
<b>REVENUES:</b>						
Local sources:						
Local tax	\$ 185,248	0	0	185,248	222,842	408,090
Other	2,554	276,144	2,042	280,740	1,105	281,845
State sources	122	0	0	122	137	259
<b>TOTAL REVENUES</b>	<b>187,924</b>	<b>276,144</b>	<b>2,042</b>	<b>466,110</b>	<b>224,084</b>	<b>690,194</b>
<b>EXPENDITURES:</b>						
Current:						
Instruction:						
Other instruction	0	281,577	1,750	283,327	0	283,327
	0	281,577	1,750	283,327	0	283,327
Other expenditures:						
Facility acquisition	79,383	0	0	79,383	0	79,383
Long-term debt:						
Principle	0	0	0	0	243,000	243,000
Interest and fiscal charges	0	0	0	0	78,128	78,128
	79,383	0	0	79,383	321,128	400,511
<b>TOTAL EXPENDITURES</b>	<b>79,383</b>	<b>281,577</b>	<b>1,750</b>	<b>362,710</b>	<b>321,128</b>	<b>683,838</b>
Excess (deficiency) of revenues over (under) expenditures	108,541	(5,433)	292	103,400	(97,044)	6,356
Other financing sources (uses):						
Transfers in	0	0	0	0	100,000	100,000
Transfers out	(100,000)	0	0	(100,000)	0	(100,000)
<b>Total other financing sources (uses)</b>	<b>(100,000)</b>	<b>0</b>	<b>0</b>	<b>(100,000)</b>	<b>100,000</b>	<b>0</b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	8,541	(5,433)	292	3,400	2,956	6,356
Fund balance beginning of year	128,604	150,550	3,972	283,126	111,140	394,266
Fund balance end of year	\$ 137,145	145,117	4,264	286,526	114,096	400,622

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PCM COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2005

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Art club	\$ 974	96	93	977
Athletics	31,724	104,642	100,421	35,945
Band	4,604	6,031	4,166	6,469
Cheerleaders	6,321	6,271	9,794	2,798
Class of 2010	634	3,167	517	3,284
Class of 2009	150	3,867	884	3,133
Class of 2004	115	0	0	115
Class of 2005	1,959	7,701	9,654	6
Class of 2006	2,013	4,722	3,667	3,068
Class of 2007	65	3,118	928	2,255
Class of 2011	339	10,313	4,104	6,548
Conference activities	218	0	180	38
Drama	925	908	906	927
Extra curricular	38,125	31,328	51,694	17,759
FFA	6,529	21,136	23,144	4,521
Foods/clothing club	120	312	93	339
Football club	2,206	2,352	2,579	1,979
Interest	947	165	330	782
Jazz creation	5,450	7,629	9,476	3,603
Journalism	214	99	84	229
Korver Memorial	187	0	65	122
Library club	712	2	694	20
National honor society	228	442	368	302
Photography club	284	2	286	0
Pop fund	2,780	1,335	0	4,115
Science club	415	2,116	2,114	417
Softball club	(5,919)	5,919	0	0
Spanish club	990	3	0	993
Speech club	931	467	1,473	(75)
Spirit club	4,546	7,885	11,816	615
Student government	10,593	13,880	9,734	14,739
Thespians	629	1,280	1,234	675
Vocal	6,841	2,839	1,586	8,094
Weight club	1,657	0	565	1,092
FHA club	(1,513)	1,513	0	0
Accounting club	1,573	8,567	4,065	6,075
Playground	4,106	102	964	3,244
Reading club	4,938	1,486	2,052	4,372
Spelling bee	424	0	0	424
Just say no club	3,223	3,078	4,284	2,017
Preschool	2,759	725	3,181	303
Yearbook	6,534	10,646	14,382	2,798
Total	\$ 150,550	276,144	281,577	145,117

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,			
	2005	2004	2003	2002
<b>Revenues:</b>				
Local sources:				
Local tax	\$ 3,393,896	3,195,617	2,765,410	2,764,561
Tuition	293,058	264,258	301,520	257,363
Other	401,957	525,001	465,522	528,568
Intermediate sources	0	0	7,933	12,987
State sources	4,331,308	4,025,365	4,018,548	4,053,398
Federal sources	296,385	179,153	156,692	129,699
<b>Total</b>	<b>\$ 8,716,604</b>	<b>8,189,394</b>	<b>7,715,625</b>	<b>7,746,576</b>
<b>Expenditures:</b>				
Instruction:				
Regular instruction	\$ 3,588,938	3,336,553	3,277,579	3,221,994
Special instruction	1,309,659	1,198,740	1,172,368	1,112,758
Other instruction	782,833	916,466	802,467	824,882
Support services:				
Student services	215,362	197,528	191,396	200,881
Instructional staff services	245,061	243,778	229,325	125,697
Administration services	647,847	625,238	618,439	631,536
Operation and maintenance of plant services	646,719	673,256	689,565	608,259
Transportation services	445,373	412,863	353,365	379,177
Central services	0	5,798	10,807	30,959
Non-instructional:				
Food service operations	2,209	1,701	1,375	1,693
Other expenditures:				
Facilities acquisitions	168,576	33,113	381,554	102,303
Long Term Debt:				
Principal	243,000	275,000	205,000	185,000
Interest	78,128	90,983	85,540	125,108
AEA flow-through	275,226	268,445	288,508	290,869
<b>Total</b>	<b>\$ 8,648,931</b>	<b>8,279,462</b>	<b>8,307,288</b>	<b>7,841,116</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of PCM Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 8, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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 opinions on the financial statements and not to provide an opinion 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 reportable 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 caused by error or fraud 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-05 is a material weakness.

Compliance and Other Matters

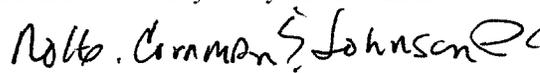
As part of obtaining reasonable assurance about whether PCM Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an

opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 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.

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, including federal awarding agencies and pass-through entities. 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.

September 8, 2005

PCM COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2005

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

REPORTABLE CONDITIONS:

I-A-05 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-05 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-C-05 Purchase Orders - We noted during our audit in the Student Activity Fund, that 21% of the invoices tested indicated that the purchase orders were not approved prior to the actual purchase of goods.

Recommendation - The District should ensure that purchase procedures are followed. The purchase order when properly completed provides a document which shows authorization of order and which line item account will be affected. By properly using the purchase order system, the District may be able to more easily track budgeted expenditures and encumbered amounts toward the specific items.

Response - We will review and comply.

Conclusion - Response accepted.

I-D-05 Early Retirement - The District's early retirement policy stipulates that any employee under the age of 65 who has worked a minimum of fifteen years of services as a full-time certified employee and who is between the ages of 55-64 as of June 30 of that school year can elect to take early retirement. As an additional stipulation for taking early retirement with the District, the employee must participate in the District's group health insurance program. The District's early retirement policy is compliant with Chapter 279.46 of the Code of Iowa; however, the District has allowed Judith Epps to take early retirement even though she is not participating in the District's group health insurance program. This appears to be a violation of the District's Board approved early retirement policy.

Recommendation - We recommend that the District consult legal counsel to determine legality of the early retirement as well as subsequent action needed. The Board should adopt procedures that ensures only eligible employees are approved for early retirement.

Response - Although the retirement did not comply with the policy, it was compliant with 279.46 of the Code of Iowa. We will review the District policy.

Conclusion - Response accepted.

I-E-05 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-F-05 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.

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Part II: Other Findings Related to Statutory Reporting

II-A-05 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, 2005.

II-B-05 Certified Budget - District disbursements for the year ended June 30, 2005, exceeded the amount budgeted in the non-instructional programs area.

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

Response - We will monitor the budget and amend if necessary.

Conclusion - Response accepted.

II-C-05 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-05 Travel Expense - Expenditures of District money for travel expenses of spouses were noted. In the 2002, 2003, 2004, and 2005 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, \$574.12 in 2004, and \$464.26 in 2005 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 - We have stopped the annual board dinner. We will investigate the invoices to try to determine which spouses attended in an effort to seek reimbursement.

Conclusion - Response accepted.

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-05 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-05 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.