

PEKIN COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2006

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Pekin Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 Election)		
David Hollingsworth	President	2005
Jerry Gott	Vice-President	2006
Mike Spilman	Board Member	2007
Greg Millikin	Board Member	2007
Andrew Adam	Board Member	2005
David Bennett	Board Member	2006
Harlan Van Voorst	Board Member	2006

Board of Education
(After September 2005 Election)

David Hollingsworth	President	2008
Jerry Gott	Vice-President	2006
Mike Spilman	Board Member	2007
Greg Millikin	Board Member	2007
Andrew Adam	Board Member	2008
David Bennett	Board Member	2006
Harlan Van Voorst	Board Member	2006

School Officials

Dr. Roger Macklem	Superintendent	2006
Connie Linney	District Secretary/Treasurer	2006
Richard Gaumer	Attorney	2006

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Certified Public Accountants
(a professional corporation)
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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, the business-type activities, each major fund, and the aggregate remaining fund information of the Pekin Community School District, Pekin, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pekin Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 26, 2006 on our consideration of Pekin 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 13 and 34 through 35 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 required 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 the three years ended June 30, 2005 (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 26, 2006

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, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,867,453 in fiscal 2005 to \$5,949,768 in fiscal 2006, while General Fund expenditures increased from \$5,704,412 in fiscal 2005 to \$5,990,378 in fiscal 2006. This resulted in a decrease in the District's General Fund balance from \$407,608 in fiscal 2005 to a balance of \$339,912 in fiscal 2006, a 16.6% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in local and state sources in fiscal 2006. The increase in expenditures was due primarily to an increase in the salary and benefits in the instruction functional area.

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 District government.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

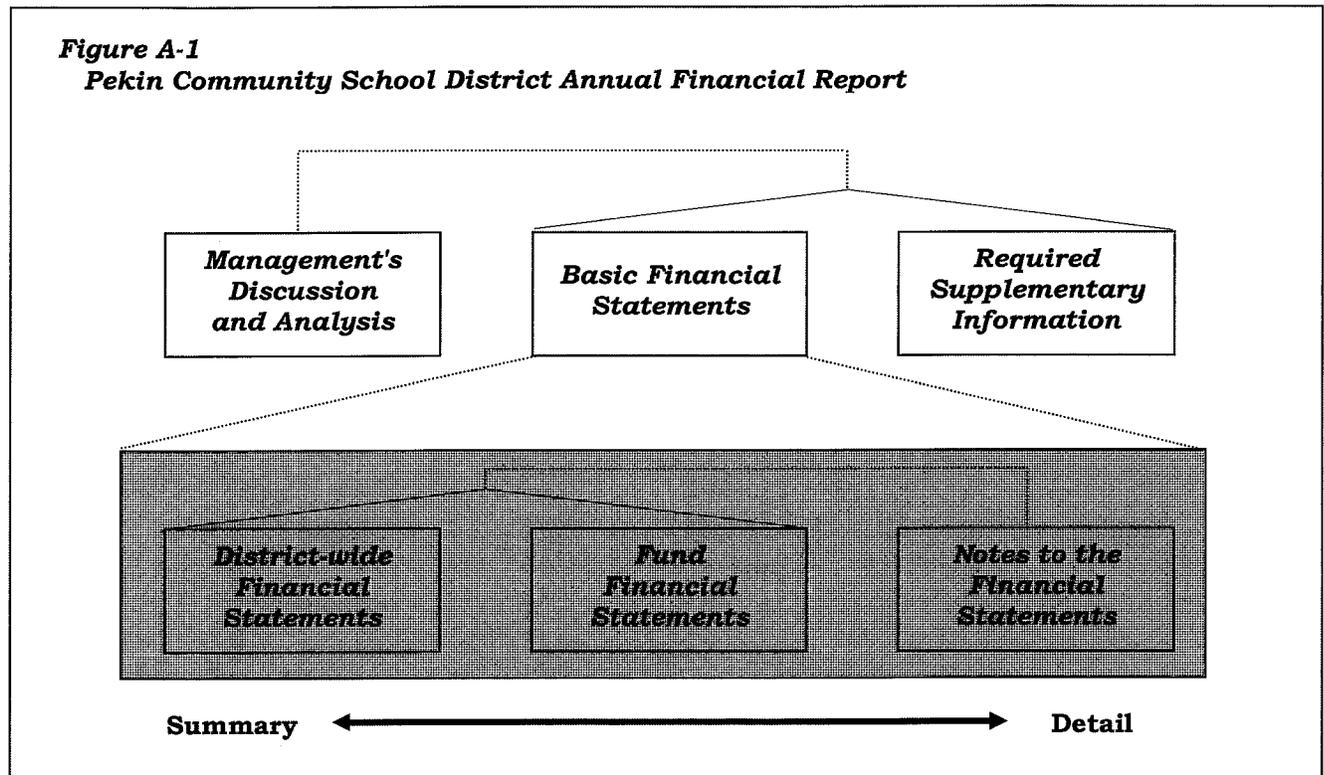


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2			
Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
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 and day care programs are 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 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, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 4,530,371	4,216,875	61,374	60,873	4,591,745	4,277,748	7.34%
Capital assets	3,417,791	3,494,677	504,423	526,897	3,922,214	4,021,574	-2.47%
Total assets	7,948,162	7,711,552	565,797	587,770	8,513,959	8,299,322	2.59%
Long-term obligations	288,939	452,121	0	0	288,939	452,121	-36.09%
Other liabilities	3,424,857	3,400,026	5,590	11,219	3,430,447	3,411,245	0.56%
Total liabilities	3,713,796	3,852,147	5,590	11,219	3,719,386	3,863,366	-3.73%
Net assets:							
Invested in capital assets, net of related debt	3,206,650	3,168,224	504,423	526,897	3,711,073	3,695,121	0.43%
Restricted	612,458	350,219	0	0	612,458	350,219	74.88%
Unrestricted	415,258	340,962	55,784	49,654	471,042	390,616	20.59%
Total net assets	\$ 4,234,366	3,859,405	560,207	576,551	4,794,573	4,435,956	8.08%

The District's combined net assets increased by 8.08%, or \$358,617, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted Net Assets - Restricted net assets, which represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used, **increased \$262,239, or 74.88%**. The increase was primarily a result of the District receiving more in Local Option Sales and Services Tax monies.

Unrestricted Net Assets - Unrestricted net assets, that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, **increased \$80,426, or 20.59%**. This increase in unrestricted net assets was a result of the District's increase in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 759,013	693,588	294,578	253,455	1,053,591	947,043	11.25%
Operating grants and contributions and restricted interest	745,819	724,222	132,443	120,771	878,262	844,993	3.94%
Capital grants and contributions and restricted interest	0	25,000	0	0	0	25,000	-100.00%
General revenues:							
Property tax	2,634,611	2,552,442	0	0	2,634,611	2,552,442	3.22%
Local option sales and services tax	322,988	284,511	0	0	322,988	284,511	13.52%
Unrestricted state grants	2,595,523	2,595,303	0	0	2,595,523	2,595,303	0.01%
Other	66,230	12,452	875	376	67,105	12,828	423.11%
Total revenues	7,124,184	6,887,518	427,896	374,602	7,552,080	7,262,120	3.99%
Program expenses:							
Governmental activities:							
Instructional	4,365,304	3,853,702	0	0	4,365,304	3,853,702	13.28%
Support services	1,984,520	1,742,805	0	0	1,984,520	1,742,805	13.87%
Non-instructional programs	2,056	127,791	444,240	402,258	446,296	530,049	-15.80%
Other expenses	397,343	403,733	0	0	397,343	403,733	-1.58%
Total expenses	6,749,223	6,128,031	444,240	402,258	7,193,463	6,530,289	10.16%
Changes in net assets	374,961	759,487	(16,344)	(27,656)	358,617	731,831	-51.00%
Beginning net assets	3,859,405	3,099,918	576,551	604,207	4,435,956	3,704,125	19.76%
Ending net assets	\$ 4,234,366	3,859,405	560,207	576,551	4,794,573	4,435,956	8.08%

Property tax and unrestricted state grants account for 69% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 88% of the total expenses.

Changes in revenues will be as a result of changes in student participation, whether in the regular, special or extracurricular programs. The most significant change in revenues was due to the increase in property tax monies. Fluctuations in basic enrollment will significantly impact the state revenues, as well as property tax revenues, keeping in mind that neither source of funding will be ever fully realized with current law and funding structure as set by the legislature, and the mid-year reduction of funding on the part of the state.

The most significant fluctuation in expenditure levels will be caused by increased salary and benefit obligations, in large part resulting from collective bargaining agreements. With a declining enrollment comes lesser ability to fund various programs required by the state and constant evaluation of staffing needs becomes a priority. Even with certain staff reductions there may still be an increase in expenditures due to the salary and benefit requirements.

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

Governmental Activities

Revenues for governmental activities were \$7,124,184 and expenses were \$6,749,223. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 4,365,304	3,065,626
Support services	1,984,520	1,984,520
Non-instructional programs	2,056	2,056
Other expenses	397,343	192,189
Totals	<u>\$ 6,749,223</u>	<u>5,244,391</u>

- The cost financed by users of the District's programs was \$759,013.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$745,819.
- The net cost of governmental activities was financed with \$2,634,611 in property tax, \$322,988 in local option sales and services tax, \$2,595,523 in unrestricted state grants and \$66,230 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$427,896 and expenses were \$444,240. The District's business-type activities include the School Nutrition Fund and the Day Care 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 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 balance of \$987,579, above last year's ending fund balances of \$699,242. However, the primary reason for the increase in combined fund balances in fiscal 2006 is due to the District receiving more local option sales and services tax monies.

Governmental Fund Highlights

- The **District's deteriorating General Fund financial position** is the product of many factors. During the year total expenses along with interfund transfers exceeded total revenues allowing the **fund balance to decrease \$67,696**.
- **The Capital Projects Fund balance increased from \$224,260 in fiscal 2005 to \$393,247 in fiscal 2006.** This increase was the result of the District receiving more local option sales and services tax monies.

-
- The **Physical Plant and Equipment Levy (PPEL) Fund balance increased** from a deficit \$105,556 in fiscal 2005 to a positive balance of \$56,527 in fiscal 2006. This increase was partially due to the decrease in facilities acquisitions expenditures.
 - The **Management Levy Fund balance increased from \$51,421 to \$80,904** due to an increase in property tax levy during the current year.

Proprietary Fund Highlights

The Proprietary Funds net assets decreased from \$576,551 at June 30, 2005 to \$560,207 at June 30, 2006, representing a decrease of 2.8%. For fiscal 2006, the District received less monies from charges for services, state and federal sources.

BUDGETARY HIGHLIGHTS

The District's revenues were \$355,056 more than budgeted revenues, a variance of 4.93%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the support services functional area.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$3.9 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 2.53% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$348,528.

The original cost of the District's capital assets was \$7.6 million. Governmental funds account for \$6.9 million with the remainder of \$.7 million in the Proprietary funds.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$3,143,152 at June 30, 2006, compared to \$3,263,301 reported at June 30, 2005. This decrease resulted from the depreciation expense incurred during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 236,245	236,245	0	0	236,245	236,245	0.00%
Buildings	2,685,863	2,795,637	457,289	467,664	3,143,152	3,263,301	-3.82%
Land improvements	134,998	136,360	0	0	134,998	136,360	-1.01%
Machinery and equipment	360,685	326,435	47,134	59,233	407,819	385,668	5.43%
Total	\$ 3,417,791	3,494,677	504,423	526,897	3,922,214	4,021,574	-2.53%

Long-Term Debt

At June 30, 2006, the District had \$288,939 in general obligation and other long-term debt outstanding. This represents a decrease of 36% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had outstanding general obligation bonds of \$245,000 at June 30, 2006.

The District had total outstanding Early Retirement payable of \$43,939 at June 30, 2006.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total
	2006	2005	Change
General obligation bonds	\$ 245,000	360,000	-31.9%
NSF loan	0	28,828	-100.0%
Early Retirement	43,939	63,293	-30.6%
Totals	\$ 288,939	452,121	-36.1%

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:

- There has been some discussion of building a new gym/drama stage along with a couple more classrooms. The estimated costs of these projects are \$4-5 million.

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 Avenue, Packwood, Iowa, 52580.

BASIC FINANCIAL STATEMENTS

PEKIN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments:			
ISCAP (Note 5)	\$ 753,139	0	753,139
Other	731,239	51,482	782,721
Receivables:			
Property tax:			
Delinquent	47,661	0	47,661
Succeeding year	2,621,293	0	2,621,293
Income surtax	118,714	0	118,714
Accounts	388	0	388
Accrued interest - ISCAP (Note 5)	5,100	0	5,100
Due from other governments	252,837	0	252,837
Inventories	0	9,892	9,892
Capital assets, net of accumulated depreciation(Note 6)	3,417,791	504,423	3,922,214
Total assets	7,948,162	565,797	8,513,959
Liabilities			
Accounts payable	28,022	0	28,022
ISCAP warrants payable (Note 5)	753,000	0	753,000
ISCAP accrued interest payable (Note 5)	4,413	0	4,413
ISCAP unamortized premium	6,998	0	6,998
Accrued interest payable	776	0	776
Deferred revenue:			
Succeeding year property tax	2,621,293	0	2,621,293
Other	10,355	0	10,355
Unearned revenue	0	5,590	5,590
Long-term liabilities(Note 7):			
Portion due within one year:			
General obligation bonds payable	120,000	0	120,000
Early retirement payable	16,470	0	16,470
Portion due after one year:			
General obligation bonds payable	125,000	0	125,000
Early retirement payable	27,469	0	27,469
Total liabilities	3,713,796	5,590	3,719,386
Net assets			
Investment in capital assets, net of related debt	3,206,650	504,423	3,711,073
Restricted for:			
Early intervention	30,717	0	30,717
Talented and gifted	12,057	0	12,057
Salary improvement program	594	0	594
Capital projects	393,247	0	393,247
Physical plant and equipment levy	56,527	0	56,527
Management levy	36,965	0	36,965
Other special revenue purposes	82,351	0	82,351
Unrestricted	415,258	55,784	471,042
Total net assets	\$ 4,234,366	560,207	4,794,573

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 2,715,689	320,958	501,308	(1,893,423)	0	(1,893,423)
Special instruction	771,791	9,935	39,357	(722,499)	0	(722,499)
Other instruction	877,824	428,120	0	(449,704)	0	(449,704)
	<u>4,365,304</u>	<u>759,013</u>	<u>540,665</u>	<u>(3,065,626)</u>	<u>0</u>	<u>(3,065,626)</u>
Support services:						
Student services	133,614	0	0	(133,614)	0	(133,614)
Instructional staff services	154,989	0	0	(154,989)	0	(154,989)
Administration services	648,516	0	0	(648,516)	0	(648,516)
Operation and maintenance of plant services	522,624	0	0	(522,624)	0	(522,624)
Transportation services	524,777	0	0	(524,777)	0	(524,777)
	<u>1,984,520</u>	<u>0</u>	<u>0</u>	<u>(1,984,520)</u>	<u>0</u>	<u>(1,984,520)</u>
Non-instructional programs	2,056	0	0	(2,056)	0	(2,056)
Other expenditures:						
Long-term debt interest	11,209	0	0	(11,209)	0	(11,209)
AEA flowthrough	205,154	0	205,154	0	0	0
Depreciation (unallocated)*	180,980	0	0	(180,980)	0	(180,980)
	<u>397,343</u>	<u>0</u>	<u>205,154</u>	<u>(192,189)</u>	<u>0</u>	<u>(192,189)</u>
Total governmental activities	6,749,223	759,013	745,819	(5,244,391)	0	(5,244,391)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	260,819	109,935	132,443	0	(18,441)	(18,441)
Day care	183,421	184,643	0	0	1,222	1,222
Total business-type activities	<u>444,240</u>	<u>294,578</u>	<u>132,443</u>	<u>0</u>	<u>(17,219)</u>	<u>(17,219)</u>
Total	\$ 7,193,463	1,053,591	878,262	(5,244,391)	(17,219)	(5,261,610)
General Revenues:						
Local tax for:						
General purposes				\$ 2,336,270	0	2,336,270
Debt Service				128,177	0	128,177
Capital outlay				170,164	0	170,164
Local option sales and services tax				322,988	0	322,988
Unrestricted state grants				2,595,523	0	2,595,523
Unrestricted investment earnings				66,230	875	67,105
Total general revenues				<u>5,619,352</u>	<u>875</u>	<u>5,620,227</u>
Changes in net assets				374,961	(16,344)	358,617
Net assets beginning of year				3,859,405	576,551	4,435,956
Net assets end of year				<u>\$ 4,234,366</u>	<u>560,207</u>	<u>4,794,573</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments:				
ISCAP (Note 5)	\$ 753,139	0	0	753,139
Other	154,875	269,483	306,881	731,239
Receivables:				
Property tax:				
Delinquent	40,125	0	7,536	47,661
Succeeding year	2,260,960	0	360,333	2,621,293
Income surtax	74,196	0	44,518	118,714
Interfund	60,000	0	0	60,000
Accounts	388	0	0	388
Accrued interest - ISCAP (Note 5)	5,100	0	0	5,100
Due from other governments	129,073	123,764	0	252,837
Total assets	\$ 3,477,856	393,247	719,268	4,590,371
Liabilities and Fund Balances				
Liabilities:				
Interfund payable	\$ 0	0	60,000	60,000
Accounts payable	28,022	0	0	28,022
ISCAP warrants payable (Note 5)	753,000	0	0	753,000
ISCAP accrued interest payable (Note 5)	4,413	0	0	4,413
ISCAP unamortized premium	6,998	0	0	6,998
Deferred revenue:				
Succeeding year property tax	2,260,960	0	360,333	2,621,293
Income surtax	74,196	0	44,518	118,714
Other	10,355	0	0	10,355
Total liabilities	3,137,944	0	464,851	3,602,795
Fund balances:				
Reserved for:				
Debt service	0	0	34,635	34,635
Early intervention	30,717	0	0	30,717
Talented and gifted	12,057	0	0	12,057
Salary improvement program	594	0	0	594
Unreserved	296,544	393,247	219,782	909,573
Total fund balances	339,912	393,247	254,417	987,576
Total liabilities and fund balances	\$ 3,477,856	393,247	719,268	4,590,371

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2006

Total fund balances of governmental funds (page 16)	\$	987,576
 Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		3,417,791
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.		118,714
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.		(776)
Long-term liabilities, including general obligation bonds and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(288,939)</u>
 Net assets of governmental activities (page 14)	 \$	 <u><u>4,234,366</u></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, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 2,186,745	322,988	447,866	2,957,599
Tuition	330,893	0	0	330,893
Other	91,053	8,597	394,700	494,350
State sources	3,079,546	0	265	3,079,811
Federal sources	261,531	0	0	261,531
Total revenues	<u>5,949,768</u>	<u>331,585</u>	<u>842,831</u>	<u>7,124,184</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	2,635,486	0	46,236	2,681,722
Special instruction	771,791	0	0	771,791
Other instruction	505,109	0	372,715	877,824
	<u>3,912,386</u>	<u>0</u>	<u>418,951</u>	<u>4,331,337</u>
Support services:				
Student services	132,493	0	1,121	133,614
Instructional staff services	154,241	0	748	154,989
Administration services	623,597	0	31,479	655,076
Operation and maintenance of plant services	555,364	0	22,111	577,475
Transportation services	407,143	0	200,216	607,359
	<u>1,872,838</u>	<u>0</u>	<u>255,675</u>	<u>2,128,513</u>
Non-instructional programs	0	0	2,056	2,056
Other expenditures:				
Facilities acquisitions	0	0	13,422	13,422
Long-term debt:				
Principal	0	0	143,828	143,828
Interest and fiscal charges	0	0	11,540	11,540
AEA flowthrough	205,154	0	0	205,154
	<u>205,154</u>	<u>0</u>	<u>168,790</u>	<u>373,944</u>
Total expenditures	<u>5,990,378</u>	<u>0</u>	<u>845,472</u>	<u>6,835,850</u>
Excess(deficiency) of revenues over(under) expenditures	(40,610)	331,585	(2,641)	288,334
Other financing sources(uses):				
Operating transfers in	0	0	189,684	189,684
Operating transfers out	(27,086)	(162,598)	0	(189,684)
Total other financing sources(uses)	<u>(27,086)</u>	<u>(162,598)</u>	<u>189,684</u>	<u>0</u>
Net change in fund balances	(67,696)	168,987	187,043	288,334
Fund balances beginning of year	<u>407,608</u>	<u>224,260</u>	<u>67,374</u>	<u>699,242</u>
Fund balances end of year	<u>\$ 339,912</u>	<u>393,247</u>	<u>254,417</u>	<u>987,576</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, 2006

Net change in fund balances - total governmental funds (page 18)	\$	288,334
 Amounts reported for governmental activities in the statement of activities are different because:		
<p>Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:</p>		
Capital outlays	\$ 240,805	
Depreciation expense	<u>(317,691)</u>	(76,886)
<p>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.</p>		
		143,828
<p>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.</p>		
		331
<p>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.</p>		
Early retirement		<u>19,354</u>
Changes in net assets of governmental activities (page 15)	\$	<u>374,961</u>

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 JUNE 30, 2006

	School Nutrition	Day Care	Total
Assets			
Cash and pooled investments	\$ 39,300	12,182	51,482
Inventories	9,892	0	9,892
Capital assets, net of accumulated depreciation (Note 6)	31,975	472,448	504,423
Total assets	81,167	484,630	565,797
Liabilities			
Unearned revenue	5,030	560	5,590
Net Assets			
Investment in capital assets, net of related debt	31,975	472,448	504,423
Unrestricted	44,162	11,622	55,784
Total net assets	\$ 76,137	484,070	560,207

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	School Nutrition	Day Care	Total
OPERATING REVENUE:			
Local sources:			
Charges for services	\$ 109,935	184,643	294,578
OPERATING EXPENSES:			
Non-instructional programs:			
Salaries	75,559	118,666	194,225
Benefits	18,221	41,904	60,125
Services	797	0	797
Supplies	146,896	10,871	157,767
Other	489	0	489
Depreciation	18,857	11,980	30,837
TOTAL OPERATING EXPENSES	260,819	183,421	444,240
OPERATING INCOME (LOSS)	(150,884)	1,222	(149,662)
NON-OPERATING REVENUES:			
State sources	4,306	0	4,306
Federal sources	128,137	0	128,137
Interest on investments	875	0	875
TOTAL NON-OPERATING REVENUES	133,318	0	133,318
Net income (loss)	(17,566)	1,222	(16,344)
Net assets beginning of year	93,703	482,848	576,551
Net assets end of year	\$ 76,137	484,070	560,207

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	School Nutrition	Day Care	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 110,411	0	110,411
Cash received from miscellaneous	1,163	185,763	186,926
Cash payments to employees for services	(93,780)	(168,398)	(262,178)
Cash payments to suppliers for goods or services	(126,257)	(10,871)	(137,128)
Net cash provided by(used in) operating activities	(108,463)	6,494	(101,969)
Cash flows from non-capital financing activities:			
State grants received	4,306	0	4,306
Federal grants received	109,033	0	109,033
Net cash provided by non-capital financing activities	113,339	0	113,339
Cash flows from capital and related financing activities:			
Purchase of capital assets	(8,363)	0	(8,363)
Cash flows from investing activities:			
Interest on investments	875	0	875
Net increase(decrease) in cash and cash equivalents	(2,612)	6,494	3,882
Cash and cash equivalents at beginning of year	41,912	5,688	47,600
Cash and cash equivalents at end of year	\$ 39,300	12,182	51,482
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:			
Operating income(loss)	\$ (150,884)	1,222	(149,662)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:			
Commodities consumed	19,104	0	19,104
Depreciation	18,857	11,980	30,837
Decrease in inventories	2,821	0	2,821
Decrease in accounts receivable	0	560	560
Decrease in salaries and benefits payable	0	(7,828)	(7,828)
Increase in unearned revenue	1,639	560	2,199
Net cash provided by(used in) operating activities	\$ (108,463)	6,494	(101,969)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and pooled investments	\$ 39,300	12,182	51,482
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
During the year ended June 30, 2006, the District received Federal commodities valued at \$19,104.			

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(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 cities of Pekin and Packwood, Iowa, and the predominate agricultural territory in Washington, Keokuk, Wapello and Jefferson 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, Pekin 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 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 Washington, Keokuk, Wapello and Jefferson 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 Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary funds are the School Nutrition and Day Care Fund. The Nutrition fund is used to account for the food service operations of the District. The Day Care Fund is used to account for the child care operations.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary 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, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Interfund Receivables and Payables - During the course of its operations, the District has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2006 balances of interfund accounts receivable or payable have been recorded.

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	\$ 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

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
Land improvements	20 years
Machinery and equipment	5-20 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.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been

served. The lunch account balances will either be reimbursed or served lunches. The unearned revenues in the Day Care Fund are monies collected in advance for tuition. The revenue will be considered earned when services are provided. The tuition and lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

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 Balances - 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, 2006, expenditures in the support services functional area exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 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 and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 460,930</u>

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) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2006 is as follows:

Receivable Fund	Payable Fund	Amount
General	PPEL	\$ 60,000

(4) Transfers

The detail of transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	General	\$ 27,086
Special Revenue: Physical Plant and Equipment Levy	Capital Projects	162,598
		<u>\$ 189,684</u>

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

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, 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 at June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2005-06B	1/26/06	1/26/07	\$ 243,848	4,942	243,000	4,283
2006-07A	6/28/06	6/28/07	509,291	158	510,000	130
Total			<u>\$ 753,139</u>	<u>5,100</u>	<u>753,000</u>	<u>4,413</u>

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 the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2005-06A	\$ 0	350,000	350,000	0

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2005-06A	3.500%	3.903%
2005-06B	4.500%	4.772%
2006-07A	4.500%	5.676%

(6) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	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	4,685,602	15,034	0	4,700,636
Land improvements	420,423	54,810	0	475,233
Machinery and equipment	1,397,476	170,961	52,746	1,515,691
Total capital assets being depreciated	6,503,501	240,805	52,746	6,691,560
Less accumulated depreciation for:				
Buildings	1,889,965	124,808	0	2,014,773
Land improvements	284,063	56,172	0	340,235
Machinery and equipment	1,071,041	136,711	52,746	1,155,006
Total accumulated depreciation	3,245,069	317,691	52,746	3,510,014
Total capital assets being depreciated, net	3,258,432	(76,886)	0	3,181,546
Governmental activities capital assets, net	\$ 3,494,677	(76,886)	0	3,417,791

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Capital assets being depreciated:				
Buildings	518,783	0	0	518,783
Machinery and equipment	144,427	8,363	0	152,790
Total capital assets being depreciated	663,210	8,363	0	671,573
Less accumulated depreciation for:				
Buildings	51,119	10,375	0	61,494
Machinery and equipment	85,194	20,462	0	105,656
Total accumulated depreciation	136,313	30,837	0	167,150
Total capital assets being depreciated, net	526,897	(22,474)	0	504,423
Business-type activities capital assets, net	\$ 526,897	(22,474)	0	504,423

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 38,398
Support services:		
Operation and maintenance of plant		1,571
Transportation		96,742
		<u>136,711</u>
Unallocated depreciation		180,980
		<u>180,980</u>
Total governmental activities depreciation expense		\$ <u>317,691</u>
Business-type activities:		
Food service operations		\$ 18,857
Day care operations		11,980
Total business-type activities depreciation expense		\$ <u>30,837</u>

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 360,000	0	115,000	245,000	120,000
NSF loan	28,828	0	28,828	0	0
Early Retirement	63,293	0	19,354	43,939	16,470
Total	\$ 452,121	0	163,182	288,939	136,470

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Bond Issue of June 1, 2002			
	Interest Rates	Principal	Interest	Total
2007	3.700 %	\$ 120,000	9,315	129,315
2008	3.900	125,000	4,875	129,875
Total		\$ 245,000	14,190	259,190

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, 2006 totaled \$19,354. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(8) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$214,703, \$204,155, and \$195,091 respectively, equal to the required contributions for each year.

(9) Risk Management

Pekin Community School District is a member in the Southeast Iowa School Employees Benefits Health Plan, an 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, 2006 was \$676,157.

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 a 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.

(10) 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 \$205,154 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, expenditures in the support services functional program areas exceeded the amounts budgeted.

REQUIRED SUPPLEMENTAL INFORMATION

PEKIN COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2006

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Funds	Funds		Original	Final	Actual
	Actual	Actual	Actual			Variance
Revenues:						
Local sources	\$ 3,782,842	295,453	4,078,295	3,652,047	3,652,047	426,248
State sources	3,079,811	4,306	3,084,117	3,282,977	3,282,977	(198,860)
Federal sources	261,531	128,137	389,668	262,000	262,000	127,668
Total revenues	<u>7,124,184</u>	<u>427,896</u>	<u>7,552,080</u>	<u>7,197,024</u>	<u>7,197,024</u>	<u>355,056</u>
Expenditures:						
Instruction	4,331,337	0	4,331,337	4,478,097	4,478,097	146,760
Support services	2,128,513	0	2,128,513	2,014,883	2,014,883	(113,630)
Non-instructional programs	2,056	444,240	446,296	614,091	614,091	167,795
Other expenditures	373,944	0	373,944	501,858	501,858	127,914
Total expenditures	<u>6,835,850</u>	<u>444,240</u>	<u>7,280,090</u>	<u>7,608,929</u>	<u>7,608,929</u>	<u>328,839</u>
Excess(deficiency) of revenues over(under) expenditures	288,334	(16,344)	271,990	(411,905)	(411,905)	(683,895)
Other financing sources, net	0	0	0	2,500	2,500	2,500
Excess(deficiency) of revenues over(under) expenditures	288,334	(16,344)	271,990	(409,405)	(409,405)	(681,395)
Balances beginning of year	<u>699,242</u>	<u>576,551</u>	<u>1,275,793</u>	<u>721,284</u>	<u>721,284</u>	<u>554,509</u>
Balances end of year	<u>\$ 987,576</u>	<u>560,207</u>	<u>1,547,783</u>	<u>311,879</u>	<u>311,879</u>	<u>1,235,904</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PEKIN COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

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

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

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

During the year ended June 30, 2006, expenditures in the support services functional areas exceeded the amounts budgeted.

OTHER SUPPLEMENTAL INFORMATION

PEKIN COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2006

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	
Assets						
Cash and pooled investments	\$ 78,042	82,351	114,306	274,699	32,182	306,881
Receivables:						
Property tax:						
Current year delinquent	2,862	0	2,221	5,083	2,453	7,536
Succeeding year	115,000	0	115,718	230,718	129,615	360,333
Income surtax	0	0	44,518	44,518	0	44,518
Total assets	\$ 195,904	82,351	276,763	555,018	164,250	719,268
Liabilities and Fund Balances						
Liabilities:						
Interfund payable	\$ 0	0	60,000	60,000	0	60,000
Deferred revenue:						
Succeeding year property tax	115,000	0	115,718	230,718	129,615	360,333
Income surtax	0	0	44,518	44,518	0	44,518
Total liabilities	115,000	0	220,236	335,236	129,615	464,851
Reserved for Debt Service	0	0	0	0	34,635	34,635
Unreserved fund balances	80,904	82,351	56,527	219,782	0	219,782
Total fund balances	80,904	82,351	56,527	219,782	34,635	254,417
Total liabilities and fund balances	\$ 195,904	82,351	276,763	555,018	164,250	719,268

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, 2006

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical	Total Special Revenue	Debt Service	
			Plant and Equipment Levy			
REVENUES:						
Local sources:						
Local tax	\$ 149,525	0	170,164	319,689	128,177	447,866
Other	4,500	368,211	21,989	394,700	0	394,700
State sources	101	0	78	179	86	265
TOTAL REVENUES	154,126	368,211	192,231	714,568	128,263	842,831
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	46,236	0	0	46,236	0	46,236
Other instruction	0	372,715	0	372,715	0	372,715
Support services:						
Student services	1,121	0	0	1,121	0	1,121
Instructional staff	748	0	0	748	0	748
Administration services	31,479	0	0	31,479	0	31,479
Operation and maintenance of plant services	22,111	0	0	22,111	0	22,111
Student transportation	20,892	0	179,324	200,216	0	200,216
Non-instructional programs:						
Food service operation	2,056	0	0	2,056	0	2,056
Other expenditures:						
Facilities acquisitions	0	0	13,422	13,422	0	13,422
Long-term debt:						
Principal	0	0	0	0	143,828	143,828
Interest and fiscal charges	0	0	0	0	11,540	11,540
TOTAL EXPENDITURES	124,643	372,715	192,746	690,104	155,368	845,472
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	29,483	(4,504)	(515)	24,464	(27,105)	(2,641)
OTHER FINANCING SOURCES:						
Transfer in	0	0	162,598	162,598	27,086	189,684
EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES	29,483	(4,504)	162,083	187,062	(19)	187,043
FUND BALANCES BEGINNING OF YEAR	51,421	86,855	(105,556)	32,720	34,654	67,374
FUND BALANCES END OF YEAR	\$ 80,904	82,351	56,527	219,782	34,635	254,417

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PEKIN COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Interest	\$ 0	974	0	974
Music Department	776	0	301	475
HS Cross Country	367	4,536	2,750	2,153
HS Boys Basketball	1,672	4,943	5,180	1,435
HS Football	9,478	32,414	38,270	3,622
HS Baseball	506	13,786	14,292	0
HS Boys Track	5,637	9,296	8,997	5,936
HS Wrestling	0	9,281	9,281	0
HS Girls Basketball	1,367	5,266	6,046	587
HS Volleyball	2,264	2,891	5,143	12
HS Softball	1,042	9,502	9,270	1,274
HS Girls Track	2,993	4,806	4,462	3,337
Athletics	12,972	19,977	14,595	18,354
Activity Charges	0	15,673	15,673	0
Class of 2002	647	1,274	1,403	518
Class of 2006	1,984	5	1,989	0
Class of 2007	0	10,040	8,130	1,910
Cheerleaders	1,447	2,502	3,038	911
Concessions	6,612	41,776	43,908	4,480
Dramatics/Musical	0	4,164	2,223	1,941
Spanish Club	710	1,115	793	1,032
Playground	2,198	0	2,198	0
FFA	7,383	29,374	32,306	4,451
FHA	4,209	9,508	6,663	7,054
Student Music	240	3,142	3,382	0
Student Insurance	0	478	478	0
Girls Letterclub	91	0	91	0
Boys Letterclub	307	0	307	0
Calendar	0	1,260	0	1,260
Student Activity	1,479	19,311	20,790	0
Student Council	440	641	442	639
Yearbook	3,292	7,749	9,302	1,739
Activity Tickets	0	0	0	0
After Prom	464	16,606	16,402	668
Middle School	7,317	4,619	4,696	7,240
Elementary Concession	0	9,376	9,376	0
Fitness Room	1,009	724	132	1,601
Industrial Arts	179	0	0	179
Drill Team	206	675	525	356
8th Grade Field Trip	803	61,204	58,079	3,928
PTO	35	0	35	0
Buy a Farm	239	0	0	239
Elementary Activities	6,490	9,323	11,767	4,046
Total	\$ 86,855	368,211	372,715	82,351

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,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 2,957,599	2,853,138	2,492,680	2,337,342
Tuition	330,893	261,287	260,590	209,423
Other	494,350	444,753	448,049	457,506
State sources	3,079,811	3,053,864	2,806,402	2,785,128
Federal sources	261,531	290,661	171,328	223,376
Total	<u>\$ 7,124,184</u>	<u>6,903,703</u>	<u>6,179,049</u>	<u>6,012,775</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 2,681,722	2,515,018	2,496,323	2,594,765
Special instruction	771,791	637,900	708,829	707,410
Other instruction	877,824	925,675	775,570	811,248
Support services:				
Student services	133,614	105,128	175,913	165,370
Instructional staff services	154,989	132,051	95,043	109,772
Administration services	655,076	539,383	522,027	535,103
Operation and maintenance of plant services	577,475	546,830	690,112	474,132
Transportation services	607,359	428,914	415,915	394,318
Non-instructional programs	2,056	127,791	113,669	90,756
Other expenditures:				
Facilities acquisitions	13,422	294,017	6,000	0
Long-term debt:				
Principal	143,828	266,944	156,789	150,392
Interest	11,540	21,266	23,450	33,570
AEA flow-through	205,154	203,860	202,864	213,482
Total	<u>\$ 6,835,850</u>	<u>6,744,777</u>	<u>6,382,504</u>	<u>6,280,318</u>

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
Pekin 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 Pekin Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 26, 2006. 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 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 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 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-06 is a material weakness.

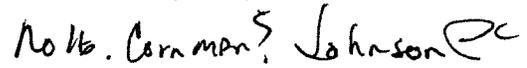
Compliance and Other Matters

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 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, 2006 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 Pekin Community School District and other parties to whom Pekin 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 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.

September 26, 2006

PEKIN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Basic Financial Statements:

REPORTABLE CONDITIONS:

I-A-06 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-06 Student Activity Fund - We noted during our audit that the Student Activity fund included an interest account and an old class account.

Recommendation - Interest should be allocated out to various accounts on a yearly basis. The class account, where the students have already graduated, should be closed out to another student activity account.

Response - Interest will be allocated out to various accounts at the end of the fiscal year. Student "class accounts" will be closed out after the class graduates.

Conclusion - Response accepted.

I-C-06 Checks Outstanding - We noted during our audit that the District had checks included in the Activity Fund bank reconciliation which have been outstanding for over a year.

Recommendation - The District should research the outstanding checks to determine if they should be re-issued, voided or submitted to the Treasurer of Iowa as unclaimed property.

Response - We will once again contact the vendors/payees of the outstanding checks. If we do not receive a response within 45 days, we will submit the remaining outstanding checks to the Treasurer of Iowa.

Conclusion - Response accepted.

I-D-06 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In order to comply with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches.

Response - We will provide time cards for non-certified coaching staff to keep better records.

Conclusion - Response accepted.

PEKIN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District expenditures for the year ended June 30, 2006, exceeded the amended certified budget amounts in the support services functional area.
- Recommendation - The certified 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 watch the various categories of the budget and as we approach the end of the fiscal year we will amend the budget when needed.
- Conclusion - Response accepted.
- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-06 Business Transactions - No business transactions between the District and District officials or employees were noted.
- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-06 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-I-06 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.