

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

JUNE 30, 2009

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PCM Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2008 Election)		
John Woestman	President	2009
Michele Wilkie	Vice President	2009
Krista Von Bank	Board Member	2008
Suzanne Morecock	Board Member	2008
Tim McCarthy	Board Member	2009
Lori Storm	Board Member	2010
Lana Wilson	Board Member	2010
Board of Education (After September 2008 Election)		
Michele Wilkie	President	2009
Tim McCarthy	Vice President	2009
Sandy Breckenridge	Board Member	2011
Mike Streeter	Board Member	2011
John Woestman	Board Member	2009
Lori Storm	Board Member	2011*
Lana Wilson	Board Member	2011*
School Officials		
Jane Babcock	Superintendent	2009
Lisa Waddell	District Secretary and Business Manager	2009
Tami Thomas	District Treasurer	2009
Ahlers & Cooney, P.C.	Attorney	2009

* Board term changed per the District's transition plan for changing Board terms from 3 to 4 years in accordance with Chapter 39.24 of the Code of Iowa.

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
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, 2009, 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 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, 2009, 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.

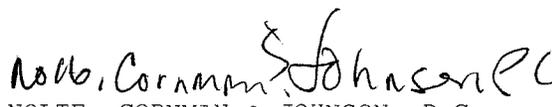
In accordance with Government Auditing Standards, we have also issued our report dated February 26, 2010 on our consideration of the PCM Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant 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 13 and 36 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 five years ended June 30, 2008 (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.

February 26, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

PCM Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$8,331,412 in fiscal 2008 to \$8,570,450 in fiscal 2009, while General Fund expenditures increased from \$8,277,864 in fiscal 2008 to \$8,829,055 in fiscal 2009. This resulted in a decrease in the District's General Fund balance from \$167,588 in fiscal 2008 to a deficit balance of \$91,017 in fiscal 2009, a 154.31% decrease from the prior year.
- The increase in General Fund revenues was attributable to increases in local and federal revenues in fiscal 2009. The increase in expenditures was due primarily to an increase in instructional expenses during fiscal 2009.

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 custodian for the benefit of those outside of the District.

Notes to 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 governmental funds.

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

Figure A-1
PCM Community School District Annual Financial Report

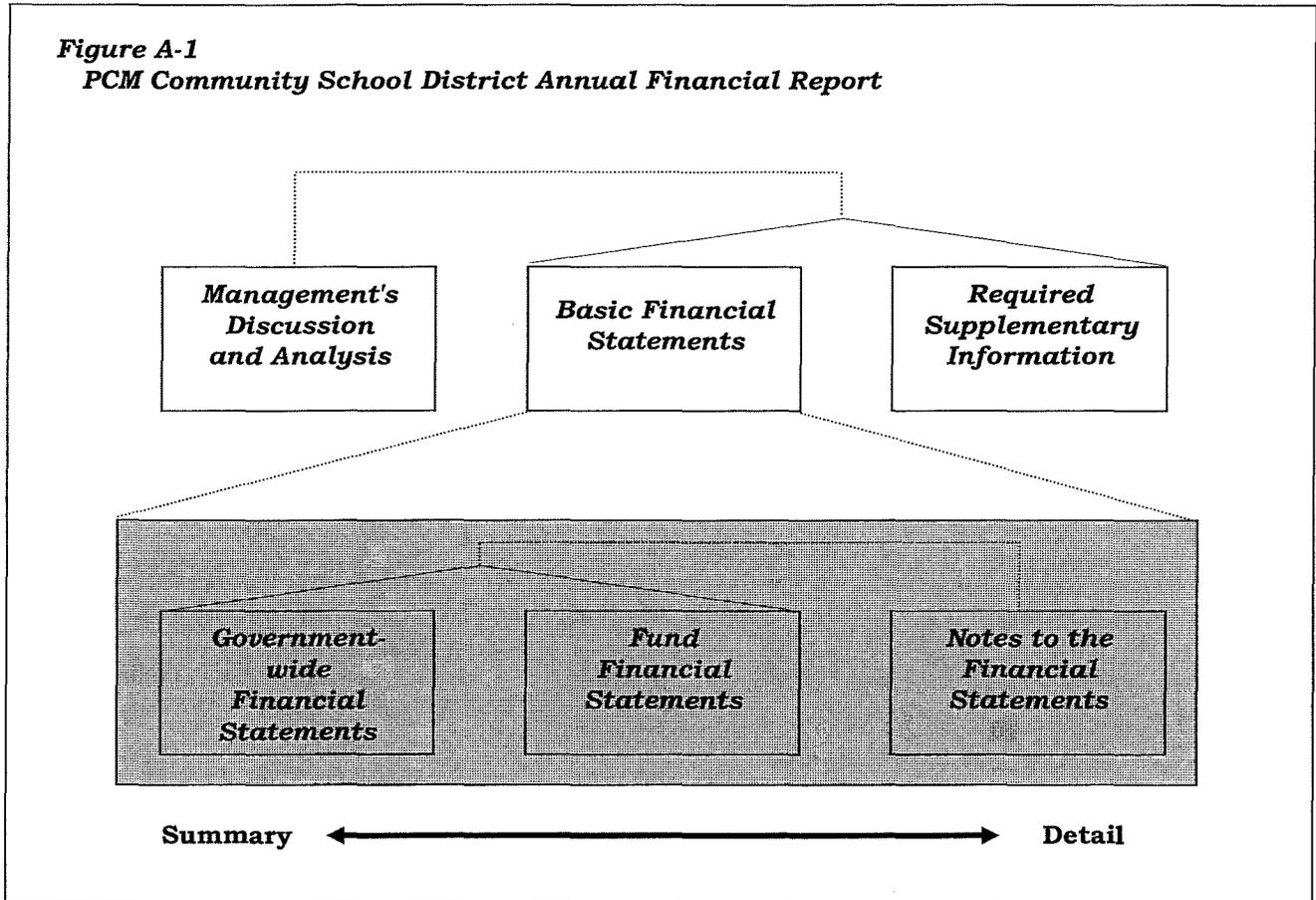


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

The District's governmental funds include the General Fund, the Special Revenue Funds, the Capital Projects and the 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 proprietary funds include a statement of net assets, 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.

- 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 total net assets at June 30, 2009 compared to June 30, 2008.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2009	2008	2009	2008	2009	2008	2008-09
Current and other assets	\$ 5,349,599	5,469,010	59,193	9,721	5,408,792	5,478,731	-1.28%
Capital assets	4,346,390	4,495,277	17,644	22,990	4,364,034	4,518,267	-3.41%
Total assets	9,695,989	9,964,287	76,837	32,711	9,772,826	9,996,998	-2.24%
Long-term liabilities	1,119,466	1,164,399	0	0	1,119,466	1,164,399	-3.86%
Other liabilities	2,883,827	3,252,093	6,201	7,236	2,890,028	3,259,329	-11.33%
Total liabilities	4,003,293	4,416,492	6,201	7,236	4,009,494	4,423,728	-9.36%
Net assets:							
Invested in capital assets, net of related debt	3,661,390	3,600,277	17,644	22,990	3,679,034	3,623,267	1.54%
Restricted	2,263,948	1,721,577	0	0	2,263,948	1,721,577	31.50%
Unrestricted	(232,642)	225,941	52,992	2,485	(179,650)	228,426	-178.65%
Total net assets	\$ 5,692,696	5,547,795	70,636	25,475	5,763,332	5,573,270	3.41%

The District's combined net assets increased by 3.41%, or \$190,062 from 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 subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased 31.50% or \$542,371 from the prior year. This increase is primarily due to the increase in the Capital Projects fund balance.

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 178.65% or \$408,076. This decrease is primarily due to the decrease in the General fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2009 compared to the year ended June 30, 2008.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	2009	2008	2009	2008	2009	2008	2008-09
Revenues:							
Program revenues:							
Charges for services	\$ 630,451	643,574	418,313	369,218	1,048,764	1,012,792	3.55%
Operating grants and contributions and restricted interest	1,438,453	1,239,839	171,245	152,913	1,609,698	1,392,752	15.58%
Capital grants and contributions and restricted interest	42,481	39,001	0	0	42,481	39,001	8.92%
General revenues:							
Property tax	3,194,441	2,972,898	0	0	3,194,441	2,972,898	7.45%
Income surtax	228,892	204,450	0	0	228,892	204,450	11.96%
Statewide sales and services tax	580,188	562,454	0	0	580,188	562,454	3.15%
Unrestricted state grants	3,894,700	4,059,612	0	0	3,894,700	4,059,612	-4.06%
Unrestricted investment earnings	13,759	31,499	0	0	13,759	31,499	-56.32%
Other	37,461	17,695	359	339	37,820	18,034	109.71%
Total revenues	10,060,826	9,771,022	589,917	522,470	10,650,743	10,293,492	3.47%
Program expenses:							
Governmental activities:							
Instructional	6,643,897	5,901,192	0	0	6,643,897	5,901,192	12.59%
Support services	2,426,797	2,494,852	0	0	2,426,797	2,494,852	-2.73%
Non-instructional programs	3,523	3,181	544,756	551,271	548,279	554,452	-1.11%
Other expenses	841,708	716,183	0	0	841,708	716,183	17.53%
Total expenses	9,915,925	9,115,408	544,756	551,271	10,460,681	9,666,679	8.21%
Change in net assets before subsequent event	144,901	655,614	45,161	(28,801)	190,062	626,813	-69.68%
Insurance settlement	0	66,759	0	0	0	66,759	-100.00%
Change in net assets	144,901	722,373	45,161	(28,801)	190,062	693,572	72.60%
Net assets beginning of year	5,547,795	4,825,422	25,475	54,276	5,573,270	4,879,698	14.21%
Net assets end of year	\$ 5,692,696	5,547,795	70,636	25,475	5,763,332	5,573,270	3.41%

In fiscal 2009, property tax, income surtax, statewide sales and services tax, and unrestricted state grants account for 78.50% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.94% of the revenue from business type activities.

The District’s total expenses were approximately \$10.46 million of which \$9.92 million was for governmental activities and less than \$0.54 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 3.47% increase in revenues and a 8.21% increase in expenses.

Governmental Activities

Revenues for governmental activities were \$10,060,826 and expenses were \$9,915,925. In a difficult budget year, the District was able to balance the budget by expending monies from the fund balances.

The following table presents the total and net cost of the District’s major governmental activities: instruction, support services, non-instructional and other expenses, for the year ended June 30, 2009 compared to the year ended June 30, 2008.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2009	2008	Change 2008-09	2009	2008	Change 2008-09
Instruction	\$ 6,643,897	5,901,192	12.59%	4,924,323	4,348,505	13.24%
Support services	2,426,797	2,494,852	-2.73%	2,422,732	2,484,854	-2.50%
Non-instructional	3,523	3,181	10.75%	3,523	3,181	10.75%
Other expenses	841,708	716,183	17.53%	453,962	356,454	27.36%
Totals	\$ 9,915,925	9,115,408	8.78%	7,804,540	7,192,994	8.50%

For the year ended June 30, 2009:

- The cost financed by users of the District’s programs was \$630,451.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,480,934.
- The net cost of governmental activities was financed with \$3,194,441 in property tax, \$228,892 in income surtax, \$580,188, \$3,894,700 in unrestricted state grants, and \$13,759 in unrestricted investment earnings, and \$37,461 in other income.

Business Type Activities

Revenues of the District’s business type activities during the year ended June 30, 2009 were \$589,917, while expenses were \$544,756. 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 \$2,264,876, compared to last year's ending fund balances of \$1,959,045.

Governmental Fund Highlights

- The District's decreasing General Fund financial position is the product of many factors. Although revenues from the prior year increased it was not enough to offset the increase in expenditures.
- The Physical Plant and Equipment Levy (PPEL) fund balance decreased from \$240,737 to \$197,565, due to increases in facilities acquisition expenditures.
- The Capital Projects fund balance increased from \$1,097,912 to \$1,627,353 due to the increase in statewide sales and services tax.
- The Debt Service fund balance increased from \$122,164 to \$125,572, due to normal debt activity during the year.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$25,475 at June 30, 2008 to \$70,636 at June 30, 2009, representing an increase of approximately 177.28%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$204,669 less than budgeted revenues, a variance of 1.92%. The most significant variance resulted from the District receiving less in state 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 instruction functional area.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, the District had invested \$4.36 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 3.41% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$235,626.

The original cost of the District's capital assets was \$9,025,633. Governmental funds account for \$8,778,774 with the remainder \$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 \$205,361 at June 30, 2008, compared to \$237,340 reported at June 30, 2009. This increase resulted from the purchase of a bus and other equipment during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2009	2008	2009	2008	2009	2008	2008-09
Land	\$ 156,462	156,462	0	0	156,462	156,462	0.00%
Buildings	3,970,232	4,156,444	0	0	3,970,232	4,156,444	-4.48%
Machinery and equipment	219,696	182,371	17,644	22,990	237,340	205,361	15.57%
Total	\$ 4,346,390	4,495,277	17,644	22,990	4,364,034	4,518,267	-3.41%

Long-Term Debt

At June 30, 2009, the District had \$1,119,466 in total long-term debt outstanding. This represents a decrease of approximately 3.86% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding general obligation bonds payable of \$610,000 at June 30, 2009, for the Prairie City Elementary.

The District had revenue bonds payable of \$75,000 at June 30, 2009, for the nature and education center that was completed during fiscal 2007.

The District also had total outstanding early retirement payable and a separation agreement payable with a former employee of \$398,466 and \$36,000 respectively at June 30, 2009.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2009	2008	2008-09
General obligation bonds	\$ 610,000	795,000	-23.27%
Revenue bonds	75,000	100,000	-25.00%
Early retirement	398,466	269,399	47.91%
Seperation Agreement	36,000	0	100.00%
Total	\$ 1,119,466	1,164,399	-3.86%

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.

-
- With the District's current financial challenges, the FY 2010 state budget cut of 10% results in a significant decrease in General Fund revenue, shifting funding on property taxes and other revenue sources. As a result of these lost revenues, the District will explore all opportunities to reduce expenditures and/or increase revenues.
 - 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 Tami Thomas, Business Manager, PCM Community School District, 400 N. Jasper, P.O. Box 610, Monroe, IA 50170.

BASIC FINANCIAL STATEMENTS

PCM COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,104,815	31,304	2,136,119
Receivables:			
Property tax:			
Delinquent	60,271	0	60,271
Succeeding year	2,639,913	0	2,639,913
Income surtax	203,982	0	203,982
Accounts	310,454	0	310,454
Due from other governments	30,164	0	30,164
Inventories	0	27,889	27,889
Capital assets, net of accumulated depreciation	4,346,390	17,644	4,364,034
TOTAL ASSETS	9,695,989	76,837	9,772,826
LIABILITIES			
Accounts payable	240,524	0	240,524
Salaries and benefits payable	304	0	304
Interest payable	3,086	0	3,086
Deferred revenue:			
Succeeding year property tax	2,639,913	0	2,639,913
Unearned revenue	0	6,201	6,201
Long-term liabilities:			
Portion due within one year:			
General obligation bonds	195,000	0	195,000
Revenue bonds	25,000	0	25,000
Early retirement	83,192	0	83,192
Seperation agreement	5,595	0	5,595
Portion due after one year:			
General obligation bonds	415,000	0	415,000
Revenue bonds	50,000	0	50,000
Early retirement	315,274	0	315,274
Seperation agreement	30,405	0	30,405
TOTAL LIABILITIES	4,003,293	6,201	4,009,494
NET ASSETS			
Invested in capital assets, net of related debt	3,661,390	17,644	3,679,034
Restricted for:			
Categorical funding	161,898	0	161,898
Physical plant and equipment levy	197,565	0	197,565
Capital projects	1,627,353	0	1,627,353
Debt service	125,572	0	125,572
Other special revenue purposes	151,560	0	151,560
Unrestricted	(232,642)	52,992	(179,650)
TOTAL NET ASSETS	\$ 5,692,696	70,636	5,763,332

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Govern- mental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular	\$ 4,196,268	383,469	1,039,456	0	(2,773,343)	0	(2,773,343)
Special	1,803,245	38,448	49,085	0	(1,715,712)	0	(1,715,712)
Other	644,384	208,534	582	0	(435,268)	0	(435,268)
	<u>6,643,897</u>	<u>630,451</u>	<u>1,089,123</u>	<u>0</u>	<u>(4,924,323)</u>	<u>0</u>	<u>(4,924,323)</u>
Support services:							
Student	79,355	0	0	0	(79,355)	0	(79,355)
Instructional staff	275,959	0	0	0	(275,959)	0	(275,959)
Administration	892,768	0	0	0	(892,768)	0	(892,768)
Operation and maintenance of plant	663,389	0	0	0	(663,389)	0	(663,389)
Transportation	515,326	0	4,065	0	(511,261)	0	(511,261)
	<u>2,426,797</u>	<u>0</u>	<u>4,065</u>	<u>0</u>	<u>(2,422,732)</u>	<u>0</u>	<u>(2,422,732)</u>
Non-instruction:							
Food service operations	3,523	0	0	0	(3,523)	0	(3,523)
Other expenditures:							
Facilities acquisitions	271,197	0	0	42,481	(228,716)	0	(228,716)
Long-term debt interest	39,034	0	0	0	(39,034)	0	(39,034)
AEA flowthrough	345,265	0	345,265	0	0	0	0
Depreciation(unallocated)*	186,212	0	0	0	(186,212)	0	(186,212)
	<u>841,708</u>	<u>0</u>	<u>345,265</u>	<u>42,481</u>	<u>(453,962)</u>	<u>0</u>	<u>(453,962)</u>
Total governmental activities	9,915,925	630,451	1,438,453	42,481	(7,804,540)	0	(7,804,540)
Business Type activities:							
Non-instructional programs:							
Nutrition services	544,756	418,313	171,245	0	0	44,802	44,802
Total business type activities	<u>544,756</u>	<u>418,313</u>	<u>171,245</u>	<u>0</u>	<u>0</u>	<u>44,802</u>	<u>44,802</u>
Total	<u>\$ 10,460,681</u>	<u>1,048,764</u>	<u>1,609,698</u>	<u>42,481</u>	<u>(7,804,540)</u>	<u>44,802</u>	<u>(7,759,738)</u>
General Revenues:							
Local tax for:							
General purposes				\$ 2,762,278	0	2,762,278	
Debt services				221,904	0	221,904	
Capital outlay				210,259	0	210,259	
Income surtax				228,892	0	228,892	
Statewide sales and service tax				580,188	0	580,188	
Unrestricted state grants				3,894,700	0	3,894,700	
Unrestricted investment earnings				13,759	359	14,118	
Other				37,461	0	37,461	
Total general revenues				<u>7,949,441</u>	<u>359</u>	<u>7,949,800</u>	
Changes in net assets				144,901	45,161	190,062	
Net assets beginning of year				5,547,795	25,475	5,573,270	
Net assets end of year				<u>\$ 5,692,696</u>	<u>70,636</u>	<u>5,763,332</u>	

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

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments	\$ (121,814)	1,498,603	728,026	2,104,815
Receivables:				
Property tax:				
Delinquent	48,416	0	11,855	60,271
Succeeding year	2,639,913	0	0	2,639,913
Income surtax	203,982	0	0	203,982
Accounts	181,704	128,750	0	310,454
Due from other governments	30,164	0	0	30,164
TOTAL ASSETS	\$ 2,982,365	1,627,353	739,881	5,349,599
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 229,183	0	11,341	240,524
Salaries and benefits payable	304	0	0	304
Deferred revenue:				
Succeeding year property tax	2,639,913	0	0	2,639,913
Income surtax	203,982	0	0	203,982
Total liabilities	3,073,382	0	11,341	3,084,723
Fund balances:				
Reserved for:				
Categorical Funding	161,898	0	0	161,898
Debt service	0	0	125,572	125,572
Unreserved	(252,915)	1,627,353	602,968	1,977,406
Total fund balances	(91,017)	1,627,353	728,540	2,264,876
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,982,365	1,627,353	739,881	5,349,599

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2009

Total fund balances of governmental funds (page 16)	\$	2,264,876
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		4,346,390
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.		(3,086)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		203,982
Long-term liabilities, including bonds payable, early retirement, and seperation agreement payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		<u>(1,119,466)</u>
Net assets of governmental activities (page 14)	\$	<u><u>5,692,696</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2009

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 2,781,623	580,188	632,878	3,994,689
Tuition	376,733	0	0	376,733
Other	95,753	42,593	292,298	430,644
State sources	4,956,332	0	346	4,956,678
Federal sources	357,629	0	0	357,629
Total revenues	<u>8,568,070</u>	<u>622,781</u>	<u>925,522</u>	<u>10,116,373</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	3,943,666	0	82,430	4,026,096
Special	1,803,245	0	0	1,803,245
Other	411,075	0	233,309	644,384
	<u>6,157,986</u>	<u>0</u>	<u>315,739</u>	<u>6,473,725</u>
Support services:				
Student	84,040	0	863	84,903
Instructional staff	281,959	0	0	281,959
Administration	895,292	0	3,476	898,768
Operation and maintenance of plant	604,591	0	58,798	663,389
Transportation	443,121	0	97,087	540,208
	<u>2,309,003</u>	<u>0</u>	<u>160,224</u>	<u>2,469,227</u>
Non-instructional:				
Food service operations	0	0	3,523	3,523
Other expenditures:				
Facilities acquisitions	0	81,246	189,951	271,197
Long-term debt:				
Principal	0	0	210,000	210,000
Interest and fiscal charges	0	0	39,985	39,985
AEA flowthrough	345,265	0	0	345,265
	<u>345,265</u>	<u>81,246</u>	<u>439,936</u>	<u>866,447</u>
Total expenditures	<u>8,812,254</u>	<u>81,246</u>	<u>919,422</u>	<u>9,812,922</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(244,184)</u>	<u>541,535</u>	<u>6,100</u>	<u>303,451</u>
Other financing sources (uses):				
Transfers in	0	16,801	28,895	45,696
Transfers out	(16,801)	(28,895)	0	(45,696)
Proceeds from the disposal of equipment	2,380	0	0	2,380
Total other financing sources (uses)	<u>(14,421)</u>	<u>(12,094)</u>	<u>28,895</u>	<u>2,380</u>
Net change in fund balances	(258,605)	529,441	34,995	305,831
Fund balance beginning of year	167,588	1,097,912	693,545	1,959,045
Fund balance end of year	<u>\$ (91,017)</u>	<u>1,627,353</u>	<u>728,540</u>	<u>2,264,876</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, 2009

Net change in fund balances - total governmental funds (page 18)	\$	305,831
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures and depreciation expense in the current year are as follows:		
Capital expenditures	\$ 81,393	
Depreciation expense	<u>(230,280)</u>	(148,887)
 Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments are as follows:		
		210,000
 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.		
		951
 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, as follows:		
Early retirement	(129,067)	
Seperation agreement	(36,000)	
Insurance settlement	<u>(66,759)</u>	(231,826)
 Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		
		<u>8,832</u>
Changes in net assets of governmental activities (page 15)	\$	<u>144,901</u>

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 JUNE 30, 2009

	<u>School Nutrition</u>
ASSETS	
Cash and cash equivalents	\$ 31,304
Inventories	27,889
Capital assets, net of accumulated depreciation	<u>17,644</u>
TOTAL ASSETS	<u>76,837</u>
LIABILITIES	
Unearned revenues	<u>6,201</u>
NET ASSETS	
Invested in capital assets	17,644
Unrestricted	<u>52,992</u>
TOTAL NET ASSETS	<u>\$ 70,636</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, 2009

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 418,313
OPERATING EXPENSES:	
Food service operations:	
Salaries	157,537
Benefits	67,283
Services	55,350
Supplies	259,240
Depreciation	5,346
TOTAL OPERATING EXPENSES	544,756
OPERATING LOSS	(126,443)
NON-OPERATING REVENUES:	
Interest	359
State sources	5,725
Federal sources	165,520
TOTAL NON-OPERATING REVENUES	171,604
Change in net assets	45,161
Net assets at beginning of year	25,475
Net assets end of year	\$ 70,636

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2009

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 418,849
Cash payments to employees for services	(224,820)
Cash payments to suppliers for goods or services	(288,664)
Net cash used in operating activities	(94,635)
Cash flows from non-capital financing activities:	
Repayment to General Fund	(26,000)
State grants received	5,725
Federal grants received	137,677
Net cash provided by non-capital financing activities	117,402
Cash flows from investing activities:	
Interest on investments	359
Net increase in cash and cash equivalents	23,126
Cash and cash equivalents at beginning of year	8,178
Cash and cash equivalents at end of year	\$ 31,304
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (126,443)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	27,890
Depreciation	5,346
Increase in inventories	(1,928)
Decrease in accounts receivable	1,535
Decrease in accounts payable	(36)
Decrease in unearned revenue	(999)
Net cash used in operating activities	\$ (94,635)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 31,304
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	

During the year ended June 30, 2009, the District received Federal commodities valued at \$27,890.
SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2009

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
ASSETS	
Cash and pooled investments	<u>\$ 56,418</u>
LIABILITIES	<u>0</u>
NET ASSETS	
Reserved for scholarships	52,600
Unreserved	<u>3,818</u>
TOTAL NET ASSETS	<u>\$ 56,418</u>

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2009

	Private Purpose Trust
	Scholarship
Additions:	
Local sources:	
Interest income	\$ 2,127
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	3,000
Change in net assets	(873)
Net assets beginning of year	57,291
Net assets end of year	\$ 56,418

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(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, 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 service.

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 attributable to the acquisition, construction, or improvement of those assets.

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

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which 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 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 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 reports the following proprietary fund.

The District's proprietary funds is the Enterprise, 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, 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 Balances

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2007 assessed property valuations; is for the tax accrual period July 1, 2008 through June 30, 2009 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2008.

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
Land improvements	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

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

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

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

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents 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 receivable and other receivables not collected within sixty days after year end.

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

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

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

Fund 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 are imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009 expenditures in the instruction functional area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances;

certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2009, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 10,253

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) Transfers

The detail of transfers for the year ended June 30, 2009 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 28,895
Capital Projects	General	16,801
Total		\$ 45,696

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

(4) Capital Assets

Capital assets activity for the year ended June 30, 2009 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 246,859	0	0	246,859
Less accumulated depreciation	223,869	5,346	0	229,215
Business-type activities capital assets, net	\$ 22,990	(5,346)	0	17,644

	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	<u>156,462</u>	<u>0</u>	<u>0</u>	<u>156,462</u>
Capital assets being depreciated:				
Buildings	7,305,264	0	0	7,305,264
Machinery and equipment	1,317,443	81,393	81,788	1,317,048
Total capital assets being depreciated	<u>8,622,707</u>	<u>81,393</u>	<u>81,788</u>	<u>8,622,312</u>
Less accumulated depreciation for:				
Buildings	3,148,820	186,212	0	3,335,032
Machinery and equipment	1,135,072	44,068	81,788	1,097,352
Total accumulated depreciation	<u>4,283,892</u>	<u>230,280</u>	<u>81,788</u>	<u>4,432,384</u>
Total capital assets being depreciated, net	<u>4,338,815</u>	<u>(148,887)</u>	<u>0</u>	<u>4,189,928</u>
Governmental activities capital assets, net	<u>\$ 4,495,277</u>	<u>(148,887)</u>	<u>0</u>	<u>4,346,390</u>

Depreciation expense was charged by the District as follows:

Governmental activities:

Support services:

Transportation

\$ 44,068

44,068

Unallocated depreciation

186,212

Total governmental activities depreciation expense

\$ 230,280

Business type activities:

Food services

\$ 5,346

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2009 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 795,000	0	185,000	610,000	195,000
Revenue bonds	100,000	0	25,000	75,000	25,000
Early retirement	269,399	180,000	50,933	398,466	83,192
Seperation agreement	0	36,000	0	36,000	5,595
Total	\$ 1,164,399	216,000	260,933	1,119,466	308,787

General Obligation

Details of the District's June 30, 2009 General Obligation bonds indebtedness is as follows:

Year Ending June 30,	Bond Issue of August 1, 1998			
	Interest Rates	Principal	Interest	Total
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		\$ 610,000	55,793	665,793

Revenue Bonds Payable

Details of the District's June 30, 2009 Revenue Bond indebtedness is as follows:

Year Ending June 30,	Bond Issue of April 13, 2005			
	Interest Rates	Principal	Interest	Total
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		\$ 75,000	5,180	80,180

The District has pledged future statewide sales and services tax revenues to repay the bonds. During April 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 bonds are payable solely from the proceeds of the statewide sales and services tax revenues received by the District and are payable through 2012. The bonds are not a general obligation of

the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly five percent of the statewide sales and services tax revenues. The total principal and interest remaining to be paid on the notes is \$80,180. For the current year principal of \$25,000 and interest of \$3,852 was paid on the bonds and the total statewide sales and services tax revenues were \$580,188.

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. During the year ended June 30, 2009, the District paid early retirement benefits of \$50,933.

Separation Agreement

The District entered into a separation agreement with an employee that resigned during the year ended June 30, 2009. The District agreed to pay a fixed amount per month for single medical and dental insurance coverage for the next six years. Health and dental insurance will be paid until June 2015 at the rate of \$559.49.

(6) Pension and Retirement Benefits

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

Plan members are required to contribute 4.10% of their annual salary and the District is required to contribute 6.35% of annual covered payroll for the years ended June 30, 2009, 2008 and 2007. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$356,588, \$323,421, and \$310,177 respectively, equal to the required contributions for each year.

(7) Other Postemployment Benefits (OPEB)

GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, issued June 2004, will be effective for the District beginning with its year ending June 30, 2010. This Statement establishes standards for the measurement, recognition and display of other postemployment benefits expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports. The District is in the process of obtaining an actuarial opinion to be in compliance with GASB Statement No. 45 for the year ended June 30, 2010.

(8) Risk Management

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 \$345,265 for the year ended June 30, 2009 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Deficit Fund Balance, Unreserved Fund Balance, and Net Assets

During the year ended June 30, 2009 the District had a deficit fund balance of \$91,017 and a deficit unreserved fund balance of \$232,915 in the General Fund. The District also had deficit net assets in governmental activities of \$232,642.

(11) Contingencies

As of June 30, 2009, the District is involved in various claims and lawsuits against the District that arise in the normal course of operations, which are covered by insurance. The outcome and eventual liability of the District, if any, from these claims and any unasserted claims is not known at this time; however, management does not believe they will be material to the basic financial statements.

(12) Budget Overexpenditure

During the year ended June 30, 2009, District expenditures in the instruction function exceeded the budgeted amounts.

(13) Categorical Funding

The District's categorical funding balances for the year ended June 30, 2009 are as follows:

<u>Project</u>	<u>Amount</u>
At Risk Programs	\$ 17,719
Additional Teacher Contract Day	499
Beginning Teacher Mentoring	726
Additional Salary, Professional Development	260
Modified Allowable Growth	28,820
Professional Development	35,301
Model Core Curriculum	15,675
Iowa Early Intervention Block Grant	48,549
Market Factor	2,986
Beginning Teacher Mentoring and Induction	2,187
Salary Improvement Program	148
Gifted and Talented	9,028
Total	<u>\$ 161,898</u>

REQUIRED SUPPLEMENTARY INFORMATION

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PCM COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES
 AND CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2009

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Fund Types	Fund Type		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 4,802,066	418,672	5,220,738	5,095,194	5,095,194	125,544
Intermediate sources	0	0	0	10,000	10,000	(10,000)
State sources	4,956,678	5,725	4,962,403	5,436,765	5,436,765	(474,362)
Federal sources	357,629	165,520	523,149	369,000	369,000	154,149
Total revenues	10,116,373	589,917	10,706,290	10,910,959	10,910,959	(204,669)
Expenditures/Expenses:						
Instruction	6,473,725	0	6,473,725	6,390,000	6,390,000	(83,725)
Support services	2,469,227	0	2,469,227	3,008,000	3,008,000	538,773
Non-instructional programs	3,523	544,756	548,279	585,000	585,000	36,721
Other expenditures	866,447	0	866,447	1,831,291	1,831,291	964,844
Total expenditures/expenses	9,812,922	544,756	10,357,678	11,814,291	11,814,291	1,456,613
Excess(deficiency)of revenues over(under)expenditures/expenses	303,451	45,161	348,612	(903,332)	(903,332)	1,251,944
Other financing sources, net	2,380	0	2,380	0	0	2,380
Excess(deficiency) of revenues and other financing sources over(under) expenditures/expenses	305,831	45,161	350,992	(903,332)	(903,332)	1,254,324
Balance beginning of year	1,959,045	25,475	1,984,520	2,692,645	2,692,645	(708,125)
Balance end of year	\$ 2,264,876	70,636	2,335,512	1,789,313	1,789,313	546,199

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PCM COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2009

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 a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function 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, 2009, expenditures in the instruction function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

PCM COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2009

	Special Revenue					Total
	Manage- ment Levy	Physical Plant & Equipment Levy	Student Activity	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
ASSETS						
Cash and pooled investments	\$ 250,047	204,851	151,694	606,592	121,434	728,026
Receivables:						
Property tax:						
Delinquent	3,796	3,921	0	7,717	4,138	11,855
TOTAL ASSETS	\$ 253,843	208,772	151,694	614,309	125,572	739,881
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 0	11,207	134	11,341	0	11,341
Fund balances:						
Reserved:						
Debt service	0	0	0	0	125,572	125,572
Unreserved	253,843	197,565	151,560	602,968	0	602,968
Total fund balances	253,843	197,565	151,560	602,968	125,572	728,540
TOTAL LIABILITIES AND FUND BALANCES	\$ 253,843	208,772	151,694	614,309	125,572	739,881

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, 2009

	Special Revenue				Debt Service	Total Other Nonmajor Governmental Funds
	Manage- ment Levy	Physical Plant and Equipment Levy	Student Activity	Total Special Revenue Funds		
REVENUES:						
Local sources:						
Local tax	\$ 200,715	210,259	0	410,974	221,904	632,878
Other	17,674	5,354	266,798	289,826	2,472	292,298
State sources	108	116	0	224	122	346
TOTAL REVENUES	218,497	215,729	266,798	701,024	224,498	925,522
EXPENDITURES:						
Current:						
Instruction:						
Regular	82,430	0	0	82,430	0	82,430
Other	0	0	233,309	233,309	0	233,309
Support services:						
Student	863	0	0	863	0	863
Administration	3,476	0	0	3,476	0	3,476
Operation and maintenance of plant	58,798	0	0	58,798	0	58,798
Transportation	28,137	68,950	0	97,087	0	97,087
Non-instructional:						
Food service operations	3,523	0	0	3,523	0	3,523
Other expenditures:						
Facilities acquisition	0	189,951	0	189,951	0	189,951
Long-term debt:						
Principal	0	0	0	0	210,000	210,000
Interest	0	0	0	0	39,985	39,985
TOTAL EXPENDITURES	177,227	258,901	233,309	669,437	249,985	919,422
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	41,270	(43,172)	33,489	31,587	(25,487)	6,100
OTHER FINANCING SOURCES:						
Transfer in	0	0	0	0	28,895	28,895
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	41,270	(43,172)	33,489	31,587	3,408	34,995
FUND BALANCE BEGINNING OF YEAR	212,573	240,737	118,071	571,381	122,164	693,545
FUND BALANCE END OF YEAR	\$ 253,843	197,565	151,560	602,968	125,572	728,540

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PCM COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2009

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Art club	\$ 352	1,075	0	1,427
Athletics	(4,567)	139,490	96,993	37,930
Band	3,929	3,080	4,143	2,866
Cheerleaders	2,116	3,466	5,122	460
Class of 2007	490	0	490	0
Class of 2008	210	0	210	0
Class of 2009	3,975	5,850	9,824	1
Class of 2010	584	3,683	2,770	1,497
Class of 2011	2,112	3,539	4,521	1,130
Class of 2012	2,527	5,101	5,940	1,688
Class of 2013	2,456	45	2,369	132
Drama	(718)	3,234	2,043	473
Mustang club	26,951	18,013	14,709	30,255
FFA	4,889	39,352	37,081	7,160
Foods/clothing club	625	271	224	672
Football club	11,073	1,844	32	12,885
Interest	988	440	6	1,422
Jazz creation	(149)	11,576	10,118	1,309
Journalism	223	0	157	66
Korver Memorial	(65)	65	0	0
Horticulture	0	50	0	50
National honor society	181	502	522	161
Pop fund	5,182	3,690	2,934	5,938
Science club	417	0	2	415
Spanish club	891	0	0	891
Speech club	(484)	4,311	2,099	1,728
Spirit club	4,256	149	493	3,912
Student government	3,908	289	2,078	2,119
Thespians	101	958	62	997
Vocal	3,453	923	1,669	2,707
Photography club	0	67	27	40
Student assignment books	187	0	187	0
Student council	17,515	2,786	7,497	12,804
Accounting club	(28)	28	0	0
Playground	3,562	0	225	3,337
Reading club	5,422	0	32	5,390
Spelling bee	424	0	424	0
Just say no club	558	1,937	690	1,805
Preschool	238	1,137	1,072	303
Yearbook	8,215	9,595	10,220	7,590
Washington DC trip	5,746	252	5,998	0
Teens against substances	326	0	326	0
Total	\$ 118,071	266,798	233,309	151,560

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 SIX YEARS

	Modified Accrual Basis					
	Years Ended June 30,					
	2009	2008	2007	2006	2005	2004
Revenues:						
Local sources:						
Local tax	\$ 3,994,689	3,739,843	3,676,037	3,478,621	3,393,896	3,195,617
Tuition	376,733	365,079	336,600	317,811	293,058	264,258
Other	430,644	425,103	389,840	470,271	401,957	525,001
Intermediate sources	0	0	10,634	0	0	0
State sources	4,956,678	4,982,082	4,760,157	4,455,610	4,331,308	4,025,365
Federal sources	357,629	258,906	239,503	195,604	296,385	179,153
Total	<u>\$ 10,116,373</u>	<u>9,771,013</u>	<u>9,412,771</u>	<u>8,917,917</u>	<u>8,716,604</u>	<u>8,189,394</u>
Expenditures:						
Instruction:						
Regular	\$ 4,026,096	3,815,202	3,782,796	3,711,392	3,588,938	3,336,553
Special	1,803,245	1,234,540	1,213,005	1,377,275	1,309,659	1,198,740
Other	644,384	882,458	961,120	752,158	782,833	916,466
Support services:						
Student	84,903	165,106	238,467	214,986	215,362	197,528
Instructional staff	281,959	267,269	308,831	331,870	245,061	243,778
Administration	898,768	863,033	803,531	768,393	647,847	625,238
Operation and maintenance of plant	663,389	703,544	683,172	692,804	646,719	673,256
Transportation	540,208	479,575	496,878	423,146	445,373	412,863
Central	0	0	0	0	0	5,798
Non-instructional:						
Food service operations	3,523	3,511	3,246	3,320	2,209	1,701
Other expenditures:						
Facilities acquisitions	271,197	158,730	929,113	422,765	168,576	33,113
Long Term Debt:						
Principal	210,000	205,000	259,600	282,400	243,000	275,000
Interest	39,985	49,019	57,099	73,623	78,128	90,983
AEA flow-through	345,265	320,728	305,537	281,251	275,226	268,445
Total	<u>\$ 9,812,922</u>	<u>9,147,715</u>	<u>10,042,395</u>	<u>9,335,383</u>	<u>8,648,931</u>	<u>8,279,462</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 50208-3050
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, 2009, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 26, 2010. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of PCM Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PCM Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects PCM Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of PCM Community School District's financial statements that is more than inconsequential will not be prevented or detected by PCM Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by PCM Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items I-A-09 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 such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2009 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.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of 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.

February 26, 2010

PCM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

I-A-09 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 continue to monitor the internal control structure among employees and look for ways to improve our control procedures.

Conclusion - Response accepted.

CONTROL DEFICIENCIES:

I-B-09 Hourly Wages Payroll Procedures - We noted during our audit that the District did not maintain documentation on hours worked by coaches for wage and hour purposes, as required by the Department of Labor.

Recommendation - The District should require documentation of hours worked for coaches who are not exempt. The District should monitor for minimum wage as well as overtime.

Response - We have implemented a new procedure to include time sheets with contracts for coaches who are non exempt employees.

Conclusion - Response accepted.

I-C-09 Purchase Orders - We noted during our audit that the District currently uses purchase orders in the purchase process, however we noted during our disbursements test instances of purchase orders that were dated after the sales invoice.

Recommendation - The advantage of using a purchase order system is that the approvals of the items being purchased are noted prior to the ordering of the items. In addition, when the items are approved and the purchase order is properly generated, it also reflects on the financial records as an outstanding order, which represents the amount as an obligation against the budget. When monitoring the actual expenses, it can be helpful to know the outstanding orders which will be subsequently paid, therefore allowing the person who approves purchase orders the insight to know if there is still available funding to make the purchase.

Although Districts are not required to use a purchase order system, the benefits to financial management make the system desirable. The District's current purchase order system should be reviewed and necessary changes made so that all disbursements are approved by the appropriate administrator before the ordering of the supplies takes place.

Response - We have identified where the weaknesses are with our purchase order system and are working with specific employees to tighten up our ordering procedures.

Conclusion - Response accepted.

PCM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part II: Other Findings Related to Required Statutory Reporting

II-A-09 Certified Budget - During the year ended June 30, 2009, District expenditures in the instruction function exceeded budgeted amounts.

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

Response - The District is monitoring the certified budget and District expenditures for all areas of the certified budget. We will amend the budget in a timely manner if needed in the future.

Conclusion - Response accepted.

II-B-09 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-09 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-09 Business Transactions - Business transactions between the District and District officials were noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Jan Van Ryswk, Secretary Owner of Van Ryswyk Plumbing	Services	\$15,266
Matt Teeter, Teacher Owner of M&K Mowing	Grounds upkeep	\$16,500
Pete Peterson, Coach Owner of Monroe Foods	Supplies	\$699

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with the employees do not appear to represent a conflict of interest.

II-E-09 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-09 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-09 Certified Enrollment - We noted that the number of open enrolled out students reported to the Iowa Department of Education on line 2 of the Certified Enrollment Certification Form for October 2008 was overstated by 0.1 students.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Iowa Department of Education and the Department of Management .

Conclusion - Response accepted.

II-H-09 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-09 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-J-09 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

II-K-09 Statewide Sales and Services Tax - No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales and services tax. For the year ended June 30, 2009, the District's financial activity and other required information for the statewide sales and services tax are as follows:

Beginning Balance	\$	0
Statewide sales and services tax revenue		580,188
Expenditures/transfers out:		
School infrastructure:		
Buildings	\$	40,071
Equipment		41,176
Debt service for school infrastructure:		
Revenue debt		28,895
		<u>110,142</u>
Ending balance	\$	<u>470,046</u>

II-L-09 Financial Condition - At June 30, 2009, the District had a deficit fund balance of \$91,017 and a deficit unreserved fund balance of \$232,915 in the General Fund. The District also had deficit net assets in governmental activities of \$232,642.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficit.

Response - The District has cut expenditures and is continuing to find ways to eliminate the deficit. We are continuing to monitor these funds.

Conclusion - Response accepted.

II-M-09 Student Activity Fund - During our audit concerns arose about certain expenditures paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The Student Activity Fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in Department of Education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as part of the education program for the students established under Iowa Administrative Code 281-12.6(1).

We noted that various accounts had Lifetouch picture commissions receipted into them. The General Fund is the only allowable fund for commission revenue recognition. In the future, Lifetouch picture commissions should be receipted to the General Fund.

Currently, there is an interest account within the Activity Fund. The interest earned during the year should be allocated out to the various activity accounts, at least on an annual basis.

The District should review the properness of receipts and expenditures that are recorded in the Student Activity Fund. The District should also review procedures that are in place in regards to the Activity Fund and follow the suggested recommendations to gain compliance and better internal controls.

Response - The District will review the properness of receipts and expenditures for the Activity Fund and will review procedures to ensure the Activity Fund is properly used. We will allocate interest on an annual basis.

Conclusion - Response accepted.

II-N-09 Check Signatures - We noted during our audit, instances of only one signature on the District's checks. Chapters 291.1 and 291.8 of the Code of Iowa require the Board President and Board Secretary to sign all checks. Pursuant to Chapter 291.1 of the Code of Iowa, the Board may designate an individual to sign warrants on behalf of the Board President. However, the Board Secretary may not designate an individual to sign in their absence.

Recommendation - The District should review their procedures to ensure that the proper signatures are on all checks before sending them out, in order to be in compliance with Chapter 291.1 and 291.8 of the Code of Iowa.

Response - The District has reviewed the check signature process and will ensure that all checks have two signatures on them before they are sent out.

Conclusion - Response accepted.

II-O-09 Official Contracts - We noted during the audit that the Board President was not signing the athletic official contracts for the District. According to Chapter 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should have the Board President sign all contracts the District enters into to comply with Chapter 291.1 of the Code of Iowa.

Response - We will have the Board President sign all contracts or have the Board President designate someone to use the signature stamp.

Conclusion - Response accepted.

II-P-09 Payroll Authorization - We noted during our audit, the District does not have written authorization to mail employee's payroll checks. Chapter 91A.3 of the Code of Iowa requires that an employer have a written request from an employee before wages can be sent to an employee by mail.

Recommendation - The District should obtain written authorization from each employee who desires to receive a payroll check by mail.

Response - The business office has implemented a procedure this year where all checks that are mailed out have a written request from the employee.

Conclusion - Response accepted.