

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

JUNE 30, 2010

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PCM Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2009 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
Board of Education (After September 2009 Election)		
Michele Wilkie	President	2013
Mike Streeter	Vice President	2011
Sandy Breckenridge	Board Member	2011
Jean Jennings	Board Member	2013
John Woestman	Board Member	2013
Lori Storm	Board Member	2011
Lana Wilson	Board Member	2011
School Officials		
Jane Babcock	Superintendent	2010
Jeana Van Voorst	District Secretary	2010
Tami Thomas	District Treasurer/ Business Manager	2010
Ahlers & Cooney, P.C.	Attorney	2010



NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
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, 2010, 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, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 28, 2011 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, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 42 through 44 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have

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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 six years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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.

March 28, 2011

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, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$8,570,450 in fiscal 2009 to \$9,129,858 in fiscal 2010, while General Fund expenditures increased from \$8,829,055 in fiscal 2009 to \$9,032,217 in fiscal 2010. This resulted in an increase in the District's General Fund balance from a deficit balance of \$91,017 in fiscal 2009 to \$6,624 in 2010, a 107.28% decrease from the prior year.
- The increase in General Fund revenues was attributable to increases in local and federal revenues in fiscal 2010. The increase in expenditures was due primarily to an increase in instructional expenses during fiscal 2010.

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, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the District.

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

Figure A-1
PCM Community School District Annual Financial Report

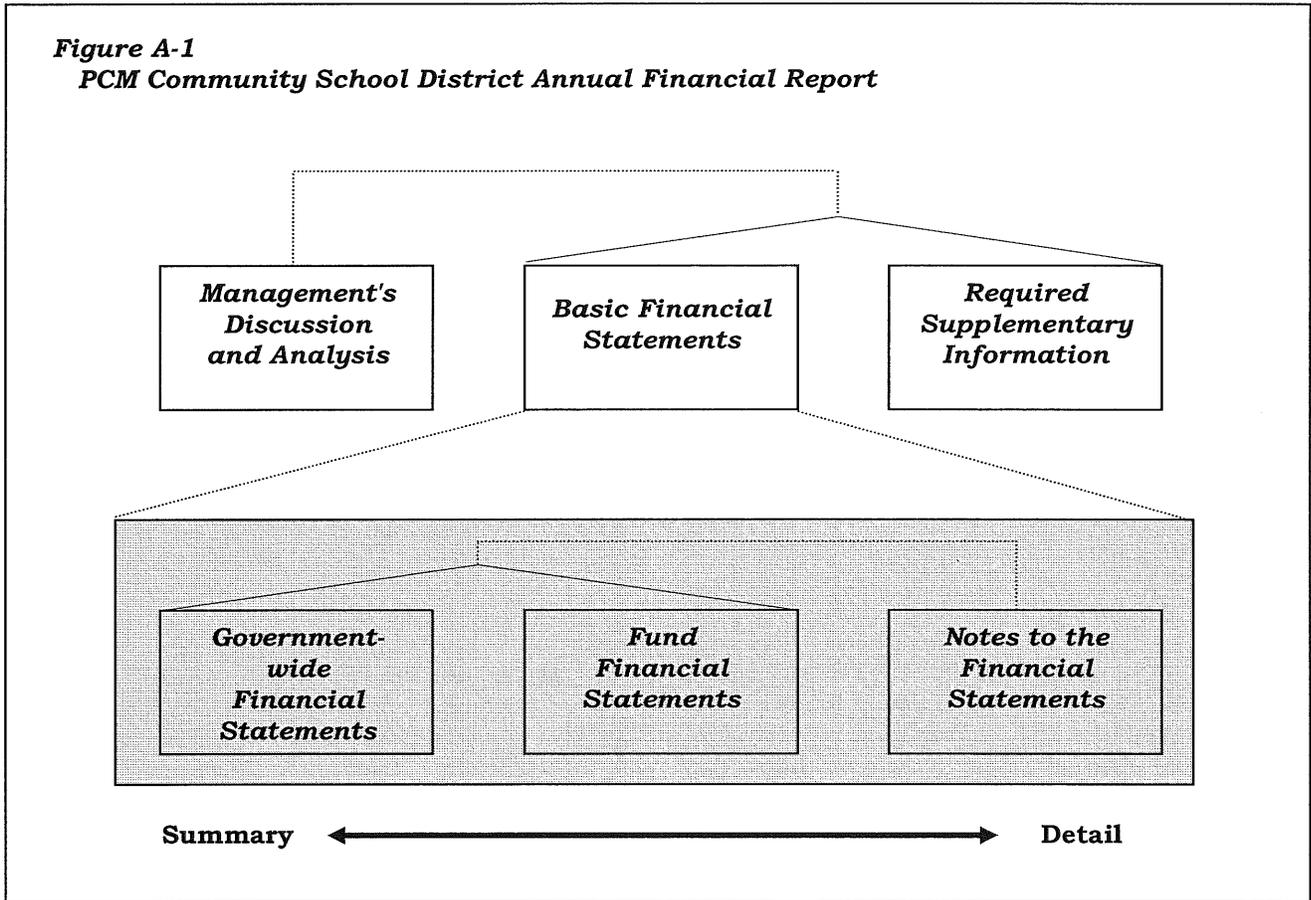


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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, 2010 compared to June 30, 2009.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Current and other assets	\$ 6,031,024	5,349,599	86,864	59,193	6,117,888	5,408,792	13.11%
Capital assets	4,285,327	4,346,390	14,259	17,644	4,299,586	4,364,034	-1.48%
Total assets	10,316,351	9,695,989	101,123	76,837	10,417,474	9,772,826	6.60%
Long-term liabilities	1,334,912	1,119,466	1,695	0	1,336,607	1,119,466	19.40%
Other liabilities	3,660,240	2,883,827	6,673	6,201	3,666,913	2,890,028	26.88%
Total liabilities	4,995,152	4,003,293	8,368	6,201	5,003,520	4,009,494	24.79%
Net assets:							
Invested in capital assets, net of related debt	3,549,557	3,661,390	14,259	17,644	3,563,816	3,679,034	-3.13%
Restricted	2,180,900	2,263,948	0	0	2,180,900	2,263,948	-3.67%
Unrestricted	(409,258)	(232,642)	78,496	52,992	(330,762)	(179,650)	-84.11%
Total net assets	\$ 5,321,199	5,692,696	92,755	70,636	5,413,954	5,763,332	-6.06%

The District's combined net assets decreased by 6.06%, or \$349,378 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 decreased 3.67% or \$83,048 from the prior year. This increase is primarily due to the increase in the Debt Service 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 84.11% or \$151,112.

Figure A-4 shows the changes in net assets for the year ended June 30, 2010 compared to the year ended June 30, 2009.

	Figure A-4 Changes in Net Assets							
	Governmental Activities		Business Type Activities		Total District		Total Change	
	2010	2009	2010	2009	2010	2009	2009-10	
Revenues:								
Program revenues:								
Charges for services	\$ 656,232	630,451	376,193	418,313	1,032,425	1,048,764	-1.56%	
Operating grants, contributions and restricted interest	1,885,694	1,438,453	191,891	171,245	2,077,585	1,609,698	29.07%	
Capital grants, contributions and restricted interest	56,688	42,481	0	0	56,688	42,481	33.44%	
General revenues:								
Property tax	3,251,514	3,194,441	0	0	3,251,514	3,194,441	1.79%	
Income surtax	242,807	228,892	0	0	242,807	228,892	6.08%	
Statewide sales and services tax	449,843	580,188	0	0	449,843	580,188	-22.47%	
Unrestricted state grants	3,781,351	3,894,700	0	0	3,781,351	3,894,700	-2.91%	
Unrestricted investment earnings	7,433	13,759	224	359	7,657	14,118	-45.76%	
Other	173,883	37,461	0	0	173,883	37,461	364.17%	
Total revenues	<u>10,505,445</u>	<u>10,060,826</u>	<u>568,308</u>	<u>589,917</u>	<u>11,073,753</u>	<u>10,650,743</u>	<u>3.97%</u>	
Program expenses:								
Governmental activities:								
Instructional	7,824,649	6,643,897	0	0	7,824,649	6,643,897	17.77%	
Support services	2,336,902	2,426,797	0	0	2,336,902	2,426,797	-3.70%	
Non-instructional programs	4,248	3,523	546,189	544,756	550,437	548,279	0.39%	
Other expenses	711,143	841,708	0	0	711,143	841,708	-15.51%	
Total expenses	<u>10,876,942</u>	<u>9,915,925</u>	<u>546,189</u>	<u>544,756</u>	<u>11,423,131</u>	<u>10,460,681</u>	<u>9.20%</u>	
Change in net assets	(371,497)	144,901	22,119	45,161	(349,378)	190,062	-283.82%	
Net assets beginning of year	<u>5,692,696</u>	<u>5,547,795</u>	<u>70,636</u>	<u>25,475</u>	<u>5,763,332</u>	<u>5,573,270</u>	<u>3.41%</u>	
Net assets end of year	<u>\$ 5,321,199</u>	<u>5,692,696</u>	<u>92,755</u>	<u>70,636</u>	<u>5,413,954</u>	<u>5,763,332</u>	<u>-6.06%</u>	

In fiscal 2010, property tax, income surtax, statewide sales and services tax, and unrestricted state grants account for 73.54% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.96% of the revenue from business type activities.

The District's total expenses were approximately \$11.42 million of which \$10.88 million was for governmental activities and approximately \$0.54 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 3.97% increase in revenues and a 9.20% increase in expenses.

Governmental Activities

Revenues for governmental activities were \$10,505,445 and expenses were \$10,876,942. 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, 2010 compared to the year ended June 30, 2009.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2010	2009	Change 2009-10	2010	2009	Change 2009-10
Instruction	\$ 7,824,649	6,643,897	17.77%	5,679,297	4,924,323	15.33%
Support services	2,336,902	2,426,797	-3.70%	2,329,680	2,422,732	-3.84%
Non-instructional	4,248	3,523	20.58%	4,248	3,523	20.58%
Other expenses	711,143	841,708	-15.51%	265,103	453,962	-41.60%
Totals	\$ 10,876,942	9,915,925	9.69%	8,278,328	7,804,540	6.07%

For the year ended June 30, 2010:

- The cost financed by users of the District's programs was \$656,232.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,942,382.
- The net cost of governmental activities was financed with \$3,251,514 in property tax, \$242,807 in income surtax, \$449,843 in statewide sales and services tax, \$3,781,351 in unrestricted state grants, \$7,433 in unrestricted investment earnings, and \$173,883 in other income.

Business Type Activities

Revenues of the District's business type activities during the year ended June 30, 2010 were \$568,308, while expenses were \$546,189. 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 \$2,157,896, compared to last year's ending fund balances of \$2,264,876.

Governmental Fund Highlights

- The District's improvement in the General Fund financial position is the product of many factors. Increased expenditures were outpaced by an increase in revenues. The increase in revenues was largely attributable to increased federal monies received.
- The Physical Plant and Equipment Levy (PPEL) fund balance decreased from \$197,565 to \$49,224.
- The Capital Projects fund balance decreased from \$1,627,353 to \$1,395,770 due to a reduction in statewide sales and services tax received and the District using these funds to pay off \$610,000 of outstanding general obligation bonds.
- The Debt Service fund balance increased from \$125,572 to \$336,355, due to transfers from the Capital Projects fund for debt retirement during the year.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$70,636 at June 30, 2009 to \$92,755 at June 30, 2010, representing an increase of approximately 31.31%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$873,909 less than budgeted revenues, a variance of 7.3%. 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, 2010, the District had invested \$4.30 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 1.48% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$122,568.

The original cost of the District's capital assets was \$9,076,253. Governmental funds account for \$8,827,022 with the remainder \$249,231 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the improvements other than buildings category. The District's improvements other than buildings totaled \$0 at June 30, 2009, compared to \$8,342 reported at June 30, 2010. This increase resulted from the installation of commercial grade fencing and reclassification of the bus barn fencing project from 2005.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Land	\$ 156,462	156,462	0	0	156,462	156,462	0.00%
Improvements other than buildings	8,342	0	0	0	8,342	0	100.00%
Buildings	3,863,564	3,970,232	0	0	3,863,564	3,970,232	-2.69%
Machinery and equipment	256,959	219,696	14,259	17,644	271,218	237,340	14.27%
Total	\$ 4,285,327	4,346,390	14,259	17,644	4,299,586	4,364,034	-1.48%

Long-Term Debt

At June 30, 2010, the District had \$1,336,607 in total long-term debt outstanding. This represents an increase of approximately 19.13% 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 revenue bonds payable of \$50,000 at June 30, 2010, 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 \$533,484 and \$30,354 respectively at June 30, 2010.

The District had an outstanding computer lease obligation of \$685,770 at June 30, 2010.

The District had a net OPEB liability of \$36,999 at June 30, 2010.

Figure A-7
Outstanding Long-Term Obligations

	Total District		Total Change
	June 30,		June 30,
	2010	2009	2009-10
General obligation bonds	\$ 0	610,000	-100.00%
Revenue bonds	50,000	75,000	-33.33%
Early retirement	533,484	398,466	33.88%
Seperation agreement	30,354	36,000	-15.68%
Computer lease	685,770	0	100.00%
Net OPEB liability	36,999	0	100.00%
Total	\$ 1,336,607	1,119,466	19.40%

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.

-
- The FY 2010 state budget cut of 10% and probable future cuts create significant challenges for the District regarding the General Fund revenue, shifting funding onto 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 Brandon Hansel, 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, 2010

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,122,220	57,253	2,179,473
Receivables:			
Property tax:			
Delinquent	44,734	0	44,734
Succeeding year	3,465,910	0	3,465,910
Income surtax	219,397	0	219,397
Accounts	178,763	2,560	181,323
Inventories	0	27,051	27,051
Capital assets, net of accumulated depreciation	4,285,327	14,259	4,299,586
Total assets	10,316,351	101,123	10,417,474
Liabilities			
Accounts payable	184,581	0	184,581
Interest payable	6,509	0	6,509
Deferred revenue:			
Succeeding year property tax	3,465,910	0	3,465,910
Other	3,240	0	3,240
Unearned revenue	0	6,673	6,673
Long-term liabilities:			
Portion due within one year:			
Revenue bonds	25,000	0	25,000
Computer lease	216,794	0	216,794
Early retirement	130,292	0	130,292
Seperation agreement	7,323	0	7,323
Portion due after one year:			
Revenue bonds	25,000	0	25,000
Computer lease	468,976	0	468,976
Early retirement	403,192	0	403,192
Seperation agreement	23,031	0	23,031
Net OPEB liability	35,304	1,695	36,999
Total liabilities	4,995,152	8,368	5,003,520
Net Assets			
Invested in capital assets, net of related debt	3,549,557	14,259	3,563,816
Restricted for:			
Categorical funding	256,890	0	256,890
Physical plant and equipment levy	49,224	0	49,224
Capital projects	1,395,770	0	1,395,770
Debt service	336,355	0	336,355
Other special revenue purposes	142,661	0	142,661
Unrestricted	(409,258)	78,496	(330,762)
Total assets	\$ 5,321,199	92,755	5,413,954

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges	Contributions	Capital Grants,	Govern- mental Activities	Business Type Activities	Total
		for Services	and Restricted Interest	and Restricted Interest			
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular	\$ 5,219,386	358,155	1,325,939	0	(3,535,292)	0	(3,535,292)
Special	1,912,049	70,882	162,303	0	(1,678,864)	0	(1,678,864)
Other	693,214	227,195	878	0	(465,141)	0	(465,141)
	<u>7,824,649</u>	<u>656,232</u>	<u>1,489,120</u>	<u>0</u>	<u>(5,679,297)</u>	<u>0</u>	<u>(5,679,297)</u>
Support services:							
Student	88,572	0	0	0	(88,572)	0	(88,572)
Instructional staff	185,725	0	0	0	(185,725)	0	(185,725)
Administration	930,944	0	0	0	(930,944)	0	(930,944)
Operation and maintenance of plant	650,929	0	0	0	(650,929)	0	(650,929)
Transportation	480,732	0	7,222	0	(473,510)	0	(473,510)
	<u>2,336,902</u>	<u>0</u>	<u>7,222</u>	<u>0</u>	<u>(2,329,680)</u>	<u>0</u>	<u>(2,329,680)</u>
Non-instruction:							
Food service operations	4,248	0	0	0	(4,248)	0	(4,248)
Other expenditures:							
Facilities acquisitions	189,075	0	0	56,688	(132,387)	0	(132,387)
Long-term debt interest	24,030	0	0	0	(24,030)	0	(24,030)
AEA flowthrough	389,352	0	389,352	0	0	0	0
Depreciation (unallocated)*	108,686	0	0	0	(108,686)	0	(108,686)
	<u>711,143</u>	<u>0</u>	<u>389,352</u>	<u>56,688</u>	<u>(265,103)</u>	<u>0</u>	<u>(265,103)</u>
Total governmental activities	10,876,942	656,232	1,885,694	56,688	(8,278,328)	0	(8,278,328)
Business type activities:							
Non-instructional programs:							
Nutrition services	546,189	376,193	191,891	0	0	21,895	21,895
Total business type activities	<u>546,189</u>	<u>376,193</u>	<u>191,891</u>	<u>0</u>	<u>0</u>	<u>21,895</u>	<u>21,895</u>
Total	<u>\$ 11,423,131</u>	<u>1,032,425</u>	<u>2,077,585</u>	<u>56,688</u>	<u>(8,278,328)</u>	<u>21,895</u>	<u>(8,256,433)</u>
General Revenues:							
Local tax for:							
General purposes					\$ 2,829,065	0	2,829,065
Debt services					223,483	0	223,483
Capital outlay					198,966	0	198,966
Income surtax					242,807	0	242,807
Statewide sales and services tax					449,843	0	449,843
Unrestricted state grants					3,781,351	0	3,781,351
Unrestricted investment earnings					7,433	224	7,657
Other					173,883	0	173,883
Total general revenues					<u>7,906,831</u>	<u>224</u>	<u>7,907,055</u>
Changes in net assets					(371,497)	22,119	(349,378)
Net assets beginning of year					5,692,696	70,636	5,763,332
Net assets end of year					<u>\$ 5,321,199</u>	<u>92,755</u>	<u>5,413,954</u>

* This amount excludes the depreciation included in the direct expenses of the various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments	\$ 30,556	1,342,231	749,433	2,122,220
Receivables:				
Property tax:				
Delinquent	36,039	0	8,695	44,734
Succeeding year	3,189,929	0	275,981	3,465,910
Income surtax	219,397	0	0	219,397
Accounts	125,224	53,539	0	178,763
Total assets	\$ 3,601,145	1,395,770	1,034,109	6,031,024
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 181,955	0	2,626	184,581
Deferred revenue:				
Succeeding year property tax	3,189,929	0	275,981	3,465,910
Income surtax	219,397	0	0	219,397
Other	3,240	0	0	3,240
Total liabilities	3,594,521	0	278,607	3,873,128
Fund balances:				
Reserved for:				
Categorical Funding	256,890	0	0	256,890
Debt service	0	0	336,355	336,355
Unreserved	(250,266)	1,395,770	419,147	1,564,651
Total fund balances	6,624	1,395,770	755,502	2,157,896
Total liabilities and fund balances	\$ 3,601,145	1,395,770	1,034,109	6,031,024

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2010

Total fund balances of governmental funds (page 20)	\$	2,157,896
 <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.		4,285,327
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.		(6,509)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		219,397
Long-term liabilities, including bonds payable, lease obligations, early retirement, separation agreement payable, and other postemployment benefits are not due and payable in the current period and, therefore, are not reported in the governmental funds.		(1,334,912)
Net assets of governmental activities (page 18)	\$	<u>5,321,199</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, 2010

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
Revenues:				
Local sources:				
Local tax	\$ 2,875,979	449,843	602,927	3,928,749
Tuition	392,249	0	0	392,249
Other	213,625	53,796	253,288	520,709
State sources	4,804,372	0	318	4,804,690
Federal sources	843,633	0	0	843,633
Total revenues	<u>9,129,858</u>	<u>503,639</u>	<u>856,533</u>	<u>10,490,030</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,125,701	0	1,042,279	5,167,980
Special	1,903,286	0	0	1,903,286
Other	456,800	0	236,511	693,311
	<u>6,485,787</u>	<u>0</u>	<u>1,278,790</u>	<u>7,764,577</u>
Support services:				
Student	93,110	0	898	94,008
Instructional staff	190,918	0	0	190,918
Administration	838,806	0	21,955	860,761
Operation and maintenance of plant	588,126	0	60,582	648,708
Transportation	446,118	0	29,048	475,166
	<u>2,157,078</u>	<u>0</u>	<u>112,483</u>	<u>2,269,561</u>
Non-instructional:				
Food service operations	0	0	4,248	4,248
Other expenditures:				
Facilities acquisitions	0	93,544	105,891	199,435
Long-term debt:				
Principal	0	0	635,000	635,000
Interest and fiscal charges	0	0	20,607	20,607
AEA flowthrough	389,352	0	0	389,352
	<u>389,352</u>	<u>93,544</u>	<u>761,498</u>	<u>1,244,394</u>
Total expenditures	<u>9,032,217</u>	<u>93,544</u>	<u>2,157,019</u>	<u>11,282,780</u>
Excess(deficiency)of revenues over(under) expenditures	97,641	410,095	(1,300,486)	(792,750)
Other financing sources(uses):				
Transfers in	0	0	641,678	641,678
Transfers out	0	(641,678)	0	(641,678)
Proceeds from leases	0	0	685,770	685,770
Total other financing sources(uses)	<u>0</u>	<u>(641,678)</u>	<u>1,327,448</u>	<u>685,770</u>
Net change in fund balances	97,641	(231,583)	26,962	(106,980)
Fund balances beginning of year	(91,017)	1,627,353	728,540	2,264,876
Fund balances end of year	<u>\$ 6,624</u>	<u>1,395,770</u>	<u>755,502</u>	<u>2,157,896</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, 2010

Net change in fund balances - total governmental funds (page 22) \$ (106,980)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are 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	\$ 48,248	
Depreciation expense	<u>(109,311)</u>	(61,063)

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: (50,770)

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. (3,423)

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	(135,018)	
Seperation agreement	5,646	
Other postemployment benefits	<u>(35,304)</u>	(164,676)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 15,415

Changes in net assets of governmental activities (page 19) \$ (371,497)

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 JUNE 30, 2010

	<u>School Nutrition</u>
Assets	
Cash and cash equivalents	\$ 57,253
Accounts receivable	2,560
Inventories	27,051
Capital assets, net of accumulated depreciation	<u>14,259</u>
Total assets	<u>101,123</u>
Liabilities	
Unearned revenues	6,673
Net OPEB liability	<u>1,695</u>
Total liabilities	<u>8,368</u>
Net Assets	
Invested in capital assets	14,259
Unrestricted	78,496
Total net assets	<u>\$ 92,755</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, 2010

	School Nutrition
Operating revenues:	
Local sources:	
Charges for services	\$ 376,193
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	168,005
Benefits	74,551
Services	55,482
Supplies	242,394
Depreciation	5,757
Total operating expenses	546,189
Operating loss	(169,996)
Non-operating revenues:	
Interest	224
State sources	4,804
Federal sources	187,087
Total non-operating revenues	192,115
Change in net assets	22,119
Net assets beginning of year	70,636
Net assets end of year	\$ 92,755

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2010

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 374,105
Cash paid to employees for services	(240,861)
Cash paid to suppliers for goods or services	(254,389)
Net cash used in operating activities	(121,145)
Cash flows from non-capital financing activities:	
State grants received	4,804
Federal grants received	144,438
Net cash provided by non-capital financing activities	149,242
Cash flows from investing activities:	
Interest on investments	224
Cash flows from capital and other financing activities:	
Purchase of assets	(2,372)
Net increase in cash and cash equivalents	25,949
Cash and cash equivalents beginning of year	31,304
Cash and cash equivalents end of year	\$ 57,253
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (169,996)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	42,649
Depreciation	5,757
Decrease in inventories	838
Increase in accounts receivable	(2,560)
Increase in unearned revenue	472
Increase in net OPEB liability	1,695
Net cash used by operating activities	\$ (121,145)

Non-cash investing, capital and related financing activities:

During the year ended June 30, 2010, the District received \$42,649 of federal commodities

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 JUNE 30, 2010

	Private Purpose Trust Scholarship
Assets	
Cash and pooled investments	\$ 55,511
Liabilities	0
Net assets	
Reserved for scholarships	52,600
Unreserved	2,911
Total net assets	<u>\$ 55,511</u>

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2010

	Private Purpose Trust Scholarship
Additions:	
Local sources:	
Interest income	\$ 2,126
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	2,850
Support services:	
Administration services	183
Total deductions	3,033
Change in net assets	(907)
Net assets beginning of year	56,418
Net assets end of year	\$ 55,511

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(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, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2009.

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 and intangibles 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
Intangibles	25,000
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
Intangibles	≥ 2 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, 2010 expenditures did not exceed the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2010 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, 2010, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$10,264 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, 2010 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 641,678

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, 2010 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 156,462	0	0	156,462
Total capital assets not being depreciated	156,462	0	0	156,462
Capital assets being depreciated:				
Improvements other than buildings	0	10,360	0	10,360
Buildings	7,305,264	0	0	7,305,264
Machinery and equipment	1,317,048	45,388	7,500	1,354,936
Total capital assets being depreciated	8,622,312	55,748	7,500	8,670,560
Less accumulated depreciation for:				
Improvements other than buildings	0	2,018	0	2,018
Buildings	3,335,032	106,668	0	3,441,700
Machinery and equipment	1,097,352	8,125	7,500	1,097,977
Total accumulated depreciation	4,432,384	116,811	7,500	4,541,695
Total capital assets being depreciated, net	4,189,928	(61,063)	0	4,128,865
Governmental activities capital assets, net	\$ 4,346,390	(61,063)	0	4,285,327

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 246,859	2,372	0	249,231
Less accumulated depreciation	229,215	5,757	0	234,972
Business type activities capital assets, net	\$ 17,644	(3,385)	0	14,259

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		1,684
Other		341
Support services:		
Administration		416
Operation and maintenance of plant		512
Transportation		5,172
		<u>8,125</u>
Unallocated depreciation		108,686
Total governmental activities depreciation expense		<u>116,811</u>
Business type activities:		
Food services		\$ 5,757

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 610,000	0	610,000	0	0
Revenue bonds	75,000	0	25,000	50,000	25,000
Early retirement	398,466	216,000	80,982	533,484	130,292
Separation agreement	36,000	0	5,646	30,354	7,323
Computer lease	0	685,770	0	685,770	216,974
Net OPEB liability	0	35,304	0	35,304	0
Total	\$ 1,119,466	937,074	721,628	1,334,912	379,589
Business type activities:					
Net OPEB liability	\$ 0	1,695	0	1,695	0

Revenue Bonds Payable

Details of the District's June 30, 2010 Revenue Bond indebtedness is as follows:

Year Ending June 30,	Bond Issue of April 13, 2005			
	Interest Rates	Principal	Interest	Total
2011	4.25	25,000	1,727	26,727
2012	4.25	25,000	664	25,664
Total		\$ 50,000	2,391	52,391

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 \$52,391. For the current year principal of \$25,000 and interest of \$2,789 was paid on the bonds and the total statewide sales and services tax revenues were \$449,843.

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, 2010, the District paid early retirement benefits of \$80,982.

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 \$610.29.

Computer Lease

The District entered into a lease agreement during the year ended June 30, 2010 for the purchase of the One-to-One Laptop Initiative (see comment IV-B-10). The outstanding principal balance of \$685,770 is to be entirely paid by the end of fiscal year 2013.

(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 4.30% of their annual salary and the District is required to contribute 6.65% of annual payroll. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$381,533, \$356,588 and \$323,421, respectively, equal to the required contributions for each year.

(7) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and vision benefits for retirees and their spouses. There are 93 active and 10 retired members in the plan. Participants must be age 55 or older at age of retirement.

The medical and dental benefits are provided through fully-insured plans with Wellmark and Delta. Retirees under age 65 pay the same premium for the medical/vision benefit as active employees, which result in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 48,052
Interest on net OPEB obligation	0
Adjustment to annual required contribution	0
Annual OPEB cost	<u>48,052</u>
Contributions made	<u>11,053</u>
Increase in net OPEB obligation	36,999
Net OPEB obligation beginning of year	<u>0</u>
Net OPEB obligation end of year	<u>\$ 36,999</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding

requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the District contributed \$11,053 to the medical plan. Plan members eligible for benefits contributed \$59,454, or 84% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	48,052	23.00%	36,999

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$408,885, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$408,885. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$4,124,895 and the ratio of the UAAL to covered payroll was 9.91%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual health cost trend rate is 6%.

Mortality rates are from the Group Annuity Mortality Table Projected to 2000, applied on a gender-specific basis. Annual retirement probabilities were developed based upon sample rates varying by age and employee type.

Projected claim costs of the medical plan are \$534 per month for retirees less than age 65. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(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 \$389,352 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Deficit Unreserved Fund Balance and Net Assets

During the year ended June 30, 2010, the District had a deficit unreserved fund balance of \$250,266 in the General Fund. The District also had deficit unrestricted net assets in governmental activities of \$409,258.

(11) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2010, expenditures in the instruction functional areas exceeded the amounts budgeted.

(12) Categorical Funding

The District's categorical funding balances for the year ended June 30, 2010 are as follows:

<u>Project</u>	<u>Amount</u>
Returning Dropouts and Dropout Prevention Programs	\$ 59,893
At Risk Programs	37,786
Additional Teacher Contract Day	499
Beginning Teacher Mentoring and Induction Program	3,182
Additional Salary, Professional Development	260
Teacher Salary Supplement	42,854
Professional Development	51,158
Professional Development for Model Core Curriculum	24,479
Iowa Early Intervention Block Grant	25,637
Market Factor	2,986
Beginning Administrator Mentoring and Induction Program	726
Home School Assistance Program	2,787
Gifted and Talented Programs	4,643
Total	<u>\$ 256,890</u>

REQUIRED SUPPLEMENTARY INFORMATION

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, 2010

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to
	Fund Types	Fund Type		Original	Final	Actual
	Actual	Actual				Variance
Revenues:						
Local sources	\$ 4,841,707	376,417	5,218,124	5,412,562	5,412,562	(194,438)
State sources	4,804,690	4,804	4,809,494	5,994,685	5,994,685	(1,185,191)
Federal sources	843,633	187,087	1,030,720	525,000	525,000	505,720
Total revenues	10,490,030	568,308	11,058,338	11,932,247	11,932,247	(873,909)
Expenditures/Expenses:						
Instruction	7,764,577	0	7,764,577	7,526,659	7,526,659	(237,918)
Support services	2,269,561	0	2,269,561	3,103,000	3,103,000	833,439
Non-instructional programs	4,248	546,189	550,437	596,100	596,100	45,663
Other expenditures	1,244,394	0	1,244,394	3,114,236	3,114,236	1,869,842
Total expenditures/expenses	11,282,780	546,189	11,828,969	14,339,995	14,339,995	2,511,026
Excess(deficiency)of revenues over(under)expenditures/expenses	(792,750)	22,119	(770,631)	(2,407,748)	(2,407,748)	1,637,117
Other financing sources, net	685,770	0	685,770	0	0	685,770
Excess(deficiency) of revenues and other financing sources over(under) expenditures/expenses	(106,980)	22,119	(84,861)	(2,407,748)	(2,407,748)	2,322,887
Balances beginning of year	2,264,876	70,636	2,335,512	2,692,645	2,692,645	(357,133)
Balances end of year	\$ 2,157,896	92,755	2,250,651	284,897	284,897	1,965,754

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PCM COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2010

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, 2010, expenditures exceeded amounts budgeted in the instruction functional area.

PCM COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FUNDING PROGRESS FOR THE
 RETIREE HEALTH PLAN
 REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	0	\$ 408,885	408,885	0.00%	4,124,895	9.91%

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

PCM COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2010

	Special Revenue					Total
	Management Levy	Physical Plant and Equipment Levy	Student Activity	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
Assets						
Cash and pooled investments	\$ 224,805	46,131	145,287	416,223	333,210	749,433
Receivables:						
Property tax:						
Delinquent	2,457	3,093	0	5,550	3,145	8,695
Succeeding year	179,999	95,982	0	275,981	0	275,981
Total assets	\$ 407,261	145,206	145,287	697,754	336,355	1,034,109
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 0	0	2,626	2,626	0	2,626
Deferred revenue:						
Succeeding year property tax	179,999	95,982	0	275,981	0	275,981
Total liabilities	179,999	95,982	2,626	278,607	0	278,607
Fund balances:						
Reserved:						
Debt service	0	0	0	0	336,355	336,355
Unreserved	227,262	49,224	142,661	419,147	0	419,147
Total fund balances	227,262	49,224	142,661	419,147	336,355	755,502
Total liabilities and fund balances	\$ 407,261	145,206	145,287	697,754	336,355	1,034,109

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, 2010

	Special Revenue				Debt Service	Total Other Nonmajor Governmental Funds
	Management Levy	Physical Plant and Equipment Levy	Student Activity	Total Special Revenue Funds		
Revenues:						
Local sources:						
Local tax	\$ 180,478	198,966	0	379,444	223,483	602,927
Other	16,582	7,918	227,612	252,112	1,176	253,288
State sources	91	113	0	204	114	318
Total revenues	197,151	206,997	227,612	631,760	224,773	856,533
Expenditures:						
Current:						
Instruction:						
Regular	107,123	935,156	0	1,042,279	0	1,042,279
Other	0	0	236,511	236,511	0	236,511
Support services:						
Student	898	0	0	898	0	898
Administration	21,833	61	0	21,894	61	21,955
Operation and maintenance of plant	60,582	0	0	60,582	0	60,582
Transportation	29,048	0	0	29,048	0	29,048
Non-instructional:						
Food service operations	4,248	0	0	4,248	0	4,248
Other expenditures:						
Facilities acquisition	0	105,891	0	105,891	0	105,891
Long-term debt:						
Principal	0	0	0	0	635,000	635,000
Interest	0	0	0	0	20,607	20,607
Total expenditures	223,732	1,041,108	236,511	1,501,351	655,668	2,157,019
Deficiency of revenues under expenditures	(26,581)	(834,111)	(8,899)	(869,591)	(430,895)	(1,300,486)
Other financing sources:						
Transfer in	0	0	0	0	641,678	641,678
Proceeds from leases	0	685,770	0	685,770	0	685,770
Total other financing sources	0	685,770	0	685,770	641,678	1,327,448
Excess(deficiency) of revenues and other financing sources over(under) expenditures	(26,581)	(148,341)	(8,899)	(183,821)	210,783	26,962
Fund balances beginning of year	253,843	197,565	151,560	602,968	125,572	728,540
Fund balances end of year	\$ 227,262	49,224	142,661	419,147	336,355	755,502

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PCM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2010

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Art club	\$ 1,427	17	0	1,444
Athletics	37,930	108,543	105,422	41,051
Band	2,866	2,332	2,474	2,724
Cheerleaders	460	3,908	3,281	1,087
Class of 2009	1	0	0	1
Class of 2010	1,497	9,216	10,450	263
Class of 2011	1,130	8,558	8,410	1,278
Class of 2012	1,688	7,016	4,275	4,429
Class of 2013	132	3,698	2,410	1,420
Class of 2014	0	133	0	133
Drama	473	2,355	784	2,044
Mustang club	30,255	4,472	21,564	13,163
FFA	7,160	36,069	34,769	8,460
Shop club	0	272	0	272
Foods/clothing club	672	223	88	807
Football club	12,885	1,729	0	14,614
Interest	1,422	404	1,826	0
Jazz creation	1,309	18,533	16,882	2,960
Journalism	66	0	119	(53)
Horticulture	50	0	0	50
National honor society	161	379	372	168
Pop fund	5,938	73	0	6,011
Science club	415	5	0	420
Spanish club	891	11	0	902
Speech club	1,728	8	622	1,114
Spirit club	3,912	1,279	760	4,431
Student government	2,119	2,000	1,721	2,398
Thespians	997	1,433	1,929	501
Vocal	2,707	35	97	2,645
Photography club	40	0	0	40
Student council	12,804	2,087	4,122	10,769
Playground	3,337	41	0	3,378
Reading club	5,390	294	169	5,515
Just say no club	1,805	0	353	1,452
Preschool	303	58	55	306
Yearbook	7,590	7,230	8,295	6,525
Conference activities	0	5,201	5,262	(61)
Total	\$ 151,560	227,612	236,511	142,661

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 SEVEN YEARS

	Modified Accrual Basis						
	Years Ended June 30,						
	2010	2009	2008	2007	2006	2005	2004
Revenues:							
Local sources:							
Local tax	\$ 3,928,749	3,994,689	3,739,843	3,676,037	3,478,621	3,393,896	3,195,617
Tuition	392,249	376,733	365,079	336,600	317,811	293,058	264,258
Other	520,709	430,644	425,103	389,840	470,271	401,957	525,001
Intermediate sources	0	0	0	10,634	0	0	0
State sources	4,804,690	4,956,678	4,982,082	4,760,157	4,455,610	4,331,308	4,025,365
Federal sources	843,633	357,629	258,906	239,503	195,604	296,385	179,153
Total	\$ 10,490,030	10,116,373	9,771,013	9,412,771	8,917,917	8,716,604	8,189,394
Expenditures:							
Instruction:							
Regular	\$ 5,167,980	4,026,096	3,815,202	3,782,796	3,711,392	3,588,938	3,336,553
Special	1,903,286	1,803,245	1,234,540	1,213,005	1,377,275	1,309,659	1,198,740
Other	693,311	644,384	882,458	961,120	752,158	782,833	916,466
Support services:							
Student	94,008	84,903	165,106	238,467	214,986	215,362	197,528
Instructional staff	190,918	281,959	267,269	308,831	331,870	245,061	243,778
Administration	860,761	898,768	863,033	803,531	768,393	647,847	625,238
Operation and maintenance of plant	648,708	663,389	703,544	683,172	692,804	646,719	673,256
Transportation	475,166	540,208	479,575	496,878	423,146	445,373	412,863
Central	0	0	0	0	0	0	5,798
Non-instructional:							
Food service operations	4,248	3,523	3,511	3,246	3,320	2,209	1,701
Other expenditures:							
Facilities acquisitions	199,435	271,197	158,730	929,113	422,765	168,576	33,113
Long Term Debt:							
Principal	635,000	210,000	205,000	259,600	282,400	243,000	275,000
Interest	20,607	39,985	49,019	57,099	73,623	78,128	90,983
AEA flow-through	389,352	345,265	320,728	305,537	281,251	275,226	268,445
Total	\$ 11,282,780	9,812,922	9,147,715	10,042,395	9,335,383	8,648,931	8,279,462

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PCM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

Grantor/Program	CFDA Number	Grant Number	Expendi- tures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY10	13,583
National School Lunch Program	10.555	FY10	170,227 *
			<u>183,810</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	FY10	55,924
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY10	12,342
			<u>68,266</u>
Career and Technical Education - Basic Grants to States	84.048	FY10	6,415
Safe and Drug-Free Schools and Communities State Grants	84.186	FY10	2,141
Improving Teacher Quality State Grants	84.367	FY09	493
Improving Teacher Quality State Grants	84.367	FY10	30,230
			<u>30,723</u>
Grants for State Assessments and Related Activities	84.369	FY10	6,754
ARRA - State Fiscal Stabilization Fund (SFSF)- Education State Grants, Recovery Act	84.394	FY10	463,182
Area Education Agency:			
Special Education Cluster (IDEA):			
Special Education Grants to States	84.027	FY10	50,919
Special Education Grants to States, Recovery Act	84.391	FY10	111,384
			<u>162,303</u>
Total			<u>\$ 923,594</u>

* -Includes \$42,649 of non-cash awards.

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of PCM Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 28, 2011. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-10 to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned costs as item II-B-10 to be a significant deficiency.

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 IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 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 and Questioned Costs. 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.

March 28, 2011

NOLTE, CORNMAN & JOHNSON P.C.

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Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable
To Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education of
PCM Community School District:

Compliance

We have audited the compliance of PCM Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. PCM Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of PCM Community School District's management. Our responsibility is to express an opinion on PCM Community School District's compliance based on our audit.

We conducted our audit on compliance in accordance with U.S. generally accepted accounting standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about PCM Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on PCM Community School District's compliance with those requirements.

In our opinion, PCM Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of PCM Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered PCM Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of PCM Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-10 to be a material weakness.

PCM Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we 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, and is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

March 28, 2011

PCM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) A significant deficiency and material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major Programs were as follows:
 - CFDA Number 84.394 - ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) PCM Community School District did not qualify as a low-risk auditee.

PCM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-10 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 cash receipts and bank deposits were performed by one employee while the posting of the cash receipts to the cash receipts journal and bank reconciliations were done by another, however, the possibility remains that material misstatements would not be prevented or detected and corrected on a timely basis.

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 - PCM continually looks for ways to improve our segregation of duties in the business office. We will continue to monitor duties and make necessary changes in any areas possible.

Conclusion - Response accepted.

II-B-10 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.

We also noted instances of District employees ordering items, paying with their personal credit cards and then seeking reimbursement from the District.

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.

The practice of directly ordering goods and services, paying with personal credit cards, and then seeking reimbursement not only circumvents the purchase order system, it also distorts vendor activity by replacing the original vendor with the employee receiving reimbursement. Accurate vendor histories will be essential in order to be compliant with the new form 1099 reporting requirements.

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 - PCM has made staff aware of the importance of following the purchase order request process. We have talked with staff members that were of concern and have tightened up our purchasing procedures in all areas.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

PCM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

**CFDA Number 84.394: ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants,
Recovery Act**

Federal Award Year: 2010

U.S. Department of Education

Passed through the Iowa Department of Education

III-A-10 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 cash receipts and bank deposits were performed by one employee while the posting of the cash receipts to the cash receipts journal and bank reconciliations were done by another, however, the possibility remains that material misstatements would not be prevented or detected and corrected on a timely basis.

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 - PCM continually looks for ways to improve our segregation of duties in the business office. We will continue to monitor duties and make necessary changes in any areas possible.

Conclusion - Response accepted.

PCM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-10 Certified Budget - Expenditures for the year ended June 30, 2010 exceeded the certified budget amounts in the instruction functional area.

Recommendation - The certified 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.

Conclusion - Response accepted.

IV-B-10 Questionable Disbursements

Gift Cards - We noted that gift cards were purchased from the Student Activity fund and awarded to students as incentives. Giving cash or gift certificates/cards to students as incentives do not appear to meet public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review the procedures in place, and make necessary adjustments to comply.

Response - Gift cards will no longer be purchased for the Senior Trip. The sponsor has been made aware of this and will no longer be purchasing gift cards to be given to students as incentives.

Conclusion - Response accepted.

Transaction Without Invoice – The District entered into a lease-purchase agreement with Apple for their One-to-One Laptop Initiative. However, the District did not receive a detailed invoice listing the items purchased and their corresponding costs. Chapter 279.29 of the Code of Iowa requires the Board to audit and allow all just claims against the District before they can be paid. In the absence of a detailed invoice, it would be impossible for the Board to audit and allow this transaction. The District has a letter dated June 7, 2010 from Apple which clarifies the quote. The narrative identifies that ‘the bundle includes the wireless infrastructure, technical training, server and server setup that will allow your system to be installed’. It continues ‘Additionally, and perhaps most importantly, we include professional development for your teachers within the bundle so they can be better prepared to take advantage of the learning tools in their classroom.’

The District identified the ‘package’ as an expense of the PPEL Fund, however, in absence of an invoice to identify the actual purchase we believe that the District may have paid expenses which are not allowable from that Fund. The technical training and professional development which is identified as included in the purchase would not appear allowable from the PPEL Fund as those expenses are not identified in Code of Iowa, Chapter 298.3as allowable infrastructure expenditures. In absence of an invoice, the entire purchase totaling \$935,156.34 would be a questioned cost.

Recommendation – The District should always obtain a detailed invoice for all potential expenditures. These invoices should then be presented to the Board so that they may audit and allow all claims before they are paid. The District should request a detail billing of the purchase and audit and allow the purchase in conjunction with Chapter

279.29 of the Code of Iowa. The training and professional development portion should be paid from the General Fund. We would recommend that the District make appropriate transfers when the billing is received and reviewed for allowability of purchase.

Response - The District does not agree with the auditor's recommendation regarding the Apple One-to-One laptop initiative. Based on advice from legal counsel, the District does not agree that Iowa Code 279.29 contains the directive advice as characterized by the auditor. We do not interpret this section as requiring the District to obtain a breakdown of pricing for technology that is sold as an indivisible unit. The District was fully advised of the individual components that made up each "unit of technology." Apple chose to price those components as a single unit. The District took advantage of that pricing; a decision that clearly benefitted the District and its taxpayers without violating Iowa Code section 279.79. Acting on the advice of the District's auditor that PPEL funds could be used to purchase the One-to-One system, the District proceeded with the transaction after receiving from Apple the letter referenced in IV-B-10. This letter advised the District that the technology was an inclusive bundle that included those items necessary to allow the system to function as intended. It is the District's belief that without those items, the technology would not have been able to operate in a manner that the District and Apple intended. Each "unit of technology" must be functional and have operational integrity. However, the District is aware of the auditor's concerns, and has forwarded a copy of the concerns raised in the audit to Apple. A meeting will be scheduled to see if we can obtain a breakdown of Apple's actual costs. If Apple provides us with their actual costs, the District will consider at that time if it should refund any monies out of the General Fund. Any transfer from the General Fund would be done under protest.

Conclusion - Response acknowledged. The District should always obtain a detailed invoice for all purchases so that the Board may properly audit and allow the expense. If Apple does not provide an invoice, to determine the allowability, the entire purchase is a questioned cost and should be paid from the General Fund.

IV-C-10 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.

IV-D-10 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	\$18,010
Matt Teeter, Teacher Owner of M&K Mowing	Grounds upkeep	\$25,640

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.

IV-E-10 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.

IV-F-10 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

- IV-G-10 Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
- IV-H-10 Supplemental Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- IV-I-10 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.
- IV-J-10 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.
- IV-K-10 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
- IV-L-10 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use 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, services and use tax. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax are as follows:

Beginning Balance		\$	470,046
Statewide sales, services and use tax revenue			449,843
Expenditures/transfers out:			
School infrastructure:			
Buildings	\$	93,544	
Debt service for school infrastructure:			
General obligation debt		613,889	
Revenue debt		27,789	
			<u>735,222</u>
Ending balance		\$	<u>184,667</u>

As a result of the statewide sales, services and use tax received during the year ended June 30, 2010, the District reduced the following levies:

	Per \$1000 of Taxable Valuation	Property Tax Dollars
Debt service levy	\$ 2.05170	\$ 449,843

IV-M-10 Deficit Balances - At June 30, 2010, the District had a deficit unreserved fund balance of \$250,266 in the General Fund. The District also had deficit unrestricted net assets in governmental activities of \$409,258.

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

Response - The District will continue to monitor these funds and investigate alternatives to help eliminate the deficit.

Conclusion - Response accepted.

IV-N-10 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response - PCM is working with our local bank to comply with Chapter 554D.114 of the Code of Iowa. We will develop a plan to obtain these images from our local bank.

Conclusion - Response accepted.

IV-O-10 Physical Plant and Equipment Levy (PEEL) Expenditures - According to Chapter 298.3 of the Code of Iowa, PEEL monies may be used for purchasing a single unit of equipment exceeding \$500 per unit. We noted during our audit that the District purchased 13 desks totaling \$4,035 with accessories and freight charges. These expenditures were less than the \$500 per single unit allowable from the PEEL Fund.

Recommendation - The District should review the Code of Iowa with regard to allowable expenditures from the PEEL Fund to avoid non-compliance. The District should also make a corrective transfer to the PEEL Fund from the General Fund in the amount of \$4,035.

Response - PCM will make the corrective transfer and review the Code of Iowa with regard to allowable expenditures.

Conclusion - Response accepted.