

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

JUNE 30, 2011

Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
Management's Discussion and Analysis		7-15
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	18
Statement of Activities	B	19
Governmental Fund Financial Statements:		
Balance Sheet	C	20
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	21
Statement of Revenues, Expenditures and Changes in Fund Balances	E	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	23
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	24
Statement of Revenues, Expenses and Changes in Net Assets	H	25
Statement of Cash Flows	I	26
Notes to Financial Statements		27-39
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		42
Notes to Required Supplementary Information - Budgetary Reporting		43
Schedule of Funding Progress for the Retiree Health Plan		44
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	46
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	47
Capital Project Accounts:		
Combining Balance Sheet	3	48
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	4	49
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	5	50
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	6	51
Schedule of Expenditures of Federal Awards	7	52
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 <u>Government Auditing Standards</u>		53-54
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133		55-56
Schedule of Findings and Questioned Costs		57-61

Pekin Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
David Hollingsworth	President	2011
Harlan Van Voorst	Vice-President	2013
Steve Copeland	Board Member	2011
Greg Millikin	Board Member	2011
Andrew Adam	Board Member	2011
David Bennett	Board Member	2013
Lynn Winn	Board Member	2013
<b>School Officials</b>		
John A. Dotson	Superintendent	2011
Connie Linney	District Secretary/Treasurer	2011
Richard Gaumer	Attorney	2011
Gruhn Law Firm	Attorney	2011

PEKIN COMMUNITY SCHOOL DISTRICT

# **NOLTE, CORNMAN & JOHNSON P.C.**

**Certified Public Accountants**

**(a professional corporation)**

**117 West 3rd Street North, Newton, Iowa 50208-3040**

**Telephone (641) 792-1910**

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Pekin Community School District, Packwood, Iowa as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pekin Community School District at June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 16, 2012 on our consideration of Pekin Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 15 and 42 through 44 are not required parts of the basic financial statements, but are supplementary information

**Members American Institute & Iowa Society of Certified Public Accountants**

required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pekin Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 7, 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 16, 2012

---

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

---

Pekin Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2011 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$6,968,555 in fiscal 2010 to \$7,477,871 in fiscal 2011, while General Fund expenditures decreased from \$6,700,605 in fiscal 2010 to \$6,385,235 in fiscal 2011. This resulted in an increase in the District's General Fund balance from \$1,033,435 in fiscal 2010 to a balance of \$2,126,071 in fiscal 2011, a 105.73% increase over the prior year.
- The increase in General Fund revenues was attributable to increases in local and state sources in fiscal 2011. The decrease in expenditures was due primarily to decreased expenditures in the instruction functional area.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Pekin Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Pekin Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Pekin Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year as well presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the non-major 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.

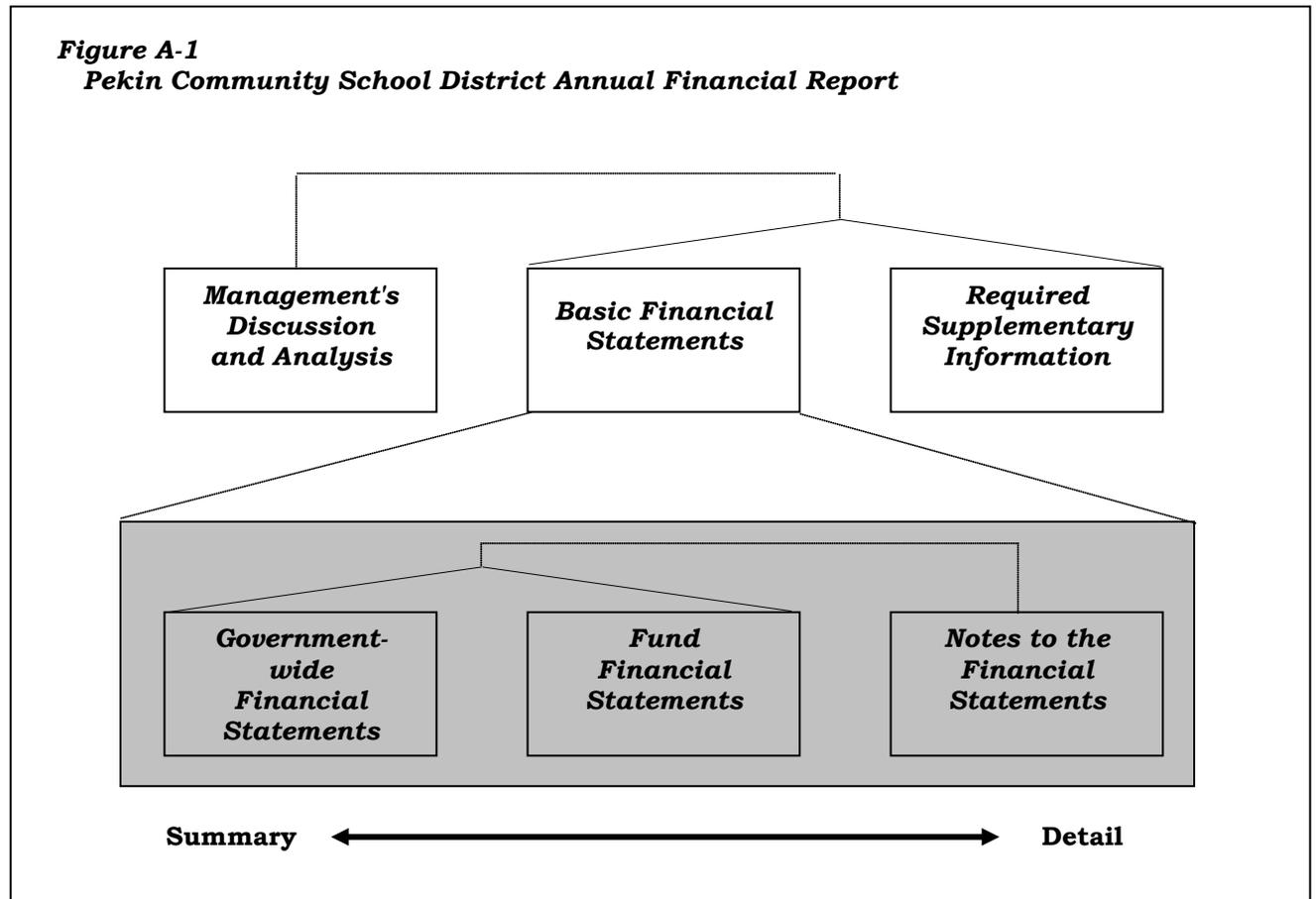


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

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

## REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

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

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

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

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

## **Fund Financial Statements**

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

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

The District has two kinds of funds:

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

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

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

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

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

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2011 compared to June 30, 2010.

Figure A-3  
Condensed Statement of Net Assets

	Governmental		Business type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-11
Current and other assets	\$ 7,285,580	6,397,235	74,976	38,839	7,360,556	6,436,074	14.36%
Capital assets	3,968,955	3,972,941	482,962	471,750	4,451,917	4,444,691	0.16%
Total assets	11,254,535	10,370,176	557,938	510,589	11,812,473	10,880,765	8.56%
Long-term obligations	695,644	343,456	1,398	817	697,042	344,273	102.47%
Other liabilities	3,678,216	3,866,869	16,098	13,987	3,694,314	3,880,856	-4.81%
Total liabilities	4,373,860	4,210,325	17,496	14,804	4,391,356	4,225,129	3.93%
Net assets:							
Invested in capital assets, net of related debt	3,732,710	3,967,836	482,962	471,750	4,215,672	4,439,586	-5.04%
Restricted	1,022,587	1,270,125	-	-	1,022,587	1,270,125	-19.49%
Unrestricted	2,125,378	921,890	57,480	24,035	2,182,858	945,925	130.76%
Total net assets	\$ 6,880,675	6,159,851	540,442	495,785	7,421,117	6,655,636	11.50%

The District's combined net assets increased by 11.50%, or \$765,481, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, intangibles, buildings and equipment), less the related debt. The debt related to the investment in capital assets are liquidated with sources other than capital assets.

Restricted Net Assets - resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used decreased 19.49%, or \$247,538. The decrease in restricted net assets was primarily due to the decrease in fund balance of the Capital Projects: Physical Plant and Equipment Levy Fund and the Management Levy Fund.

Unrestricted Net Assets are 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, increased 130.76%, or \$1,236,933. This increase in unrestricted net assets was primary due to the increase in the fund balance of the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2011 compared to June 30, 2010.

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business type Activities		Total School District		Total Change
	2011	2010	2011	2010	2011	2010	2010-11
<b>Revenues:</b>							
<b>Program revenues:</b>							
Charges for services	\$ 810,187	715,828	406,355	352,521	1,216,542	1,068,349	13.87%
Operating grants, contributions and restricted interest	574,942	1,299,148	166,059	169,474	741,001	1,468,622	-49.54%
Capital grants, contributions and restricted interest	-	23,670	-	-	-	23,670	-100.00%
<b>General revenues:</b>							
Property tax	3,274,603	3,125,965	-	-	3,274,603	3,125,965	4.75%
Income surtax	231,182	225,047	-	-	231,182	225,047	2.73%
Statewide sales, services and use tax	463,398	473,745	-	-	463,398	473,745	-2.18%
Unrestricted state grants	3,037,364	2,210,005	-	-	3,037,364	2,210,005	37.44%
Nonspecific program federal grants	236,032	-	-	-	236,032	-	100.00%
Unrestricted interest revenue	21,296	17,917	30	22	21,326	17,939	18.88%
Other general revenue	83,497	180,265	15,328	11,541	98,825	191,806	-48.48%
<b>Total revenues</b>	<b>8,732,501</b>	<b>8,271,590</b>	<b>587,772</b>	<b>533,558</b>	<b>9,320,273</b>	<b>8,805,148</b>	<b>5.85%</b>
<b>Program expenses:</b>							
<b>Governmental activities:</b>							
Instruction	5,394,685	5,232,615	-	-	5,394,685	5,232,615	3.10%
Support services	2,106,514	2,031,939	-	-	2,106,514	2,031,939	3.67%
Non-instructional programs	16,095	8,925	543,115	542,970	559,210	551,895	1.33%
Other expenses	494,383	495,742	-	-	494,383	495,742	-0.27%
<b>Total expenses</b>	<b>8,011,677</b>	<b>7,769,221</b>	<b>543,115</b>	<b>542,970</b>	<b>8,554,792</b>	<b>8,312,191</b>	<b>2.92%</b>
Changes in net assets	720,824	502,369	44,657	(9,412)	765,481	492,957	55.28%
Net assets beginning of year, as restated	6,159,851	5,657,482	495,785	505,197	6,655,636	6,162,679	8.00%
Net assets end of year	\$ 6,880,675	6,159,851	540,442	495,785	7,421,117	6,655,636	11.50%

In fiscal 2011, property tax, income surtax, statewide sales, services and use tax and unrestricted state grants account for 80.24% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 97.39% of the revenue from business type activities.

The District's total revenues were approximately \$9.32 million of which approximately \$8.73 was for governmental activities and approximately \$0.59 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 5.85% increase in revenues and a 2.92% increase in expenses. The increase in expenses is related to increased expenditures the support services functional area

### Governmental Activities

Revenues for governmental activities were \$8,732,501 and expenses were \$8,011,677. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services, non-instructional programs and other expenses, for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
			Change			Change
	2011	2010	2010-11	2011	2010	2010-11
Instruction	\$ 5,394,685	5,232,615	3.10%	4,315,724	3,495,654	23.46%
Support services	2,106,514	2,031,939	3.67%	2,078,263	2,031,939	2.28%
Non-instructional programs	16,095	8,925	80.34%	16,095	8,925	80.34%
Other expenses	494,383	495,742	-0.27%	216,466	194,057	11.55%
Totals	\$ 8,011,677	7,769,221	3.12%	6,626,548	5,730,575	15.63%

For the year ended June 30, 2011:

- The cost financed by users of the District’s programs was \$810,187.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$574,942.
- The net cost of governmental activities was financed with \$3,969,183 in local tax, \$3,037,364 in unrestricted state grants, \$236,032 in nonspecific program federal grants, \$21,296 in interest income and \$83,497 in other general revenues.

**Business type Activities**

Revenues for the District’s business type activities the year ended June 30, 2011 were \$587,772 and expenses were \$543,115. The District’s business type activities include the School Nutrition Fund and the Day Care Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, investment income and other miscellaneous revenue.

**INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$3,415,311, above last year’s ending fund balances of \$2,353,745. However, the primary reason for the increase in combined fund balances in fiscal 2011 is due to the District receiving more in local and state source revenues during the year.

**Governmental Fund Highlights**

- The District’s increase in General Fund financial position is the product of many factors. The District saw a significant increase in property tax and state source revenue during the year. Fund revenues increased and expenditures decreased as compared to the previous year thus allowing the General Fund balance to increase by \$1,092,636 to a final ending fund balance of \$2,126,071 at June 30, 2011.
- The Capital Projects Accounts balance as a whole increased from \$975,890 in fiscal 2010 to \$1,001,627 in fiscal 2011. If the proceeds from the Apple Computer Lease are excluded from the Statewide, Sales and Service Tax revenues and expenses, the amounts received during the year for sales tax and other revenues outpaced fund expenditure during the year, thus allowing the increase in fund balance. The District implemented GASB Statement No. 54 which reclassified the Physical Plant and Equipment Levy Fund as a Capital Project Fund.

## Proprietary Fund Highlights

The Proprietary Fund's net assets increased from \$495,785 at June 30, 2010 to \$540,442 at June 30, 2011, representing an increase of 9.01%. As compared to the previous year, revenues in the School Nutrition Fund as well as the Day Care Fund increased while expenditures for both remained relatively constant.

The School Nutrition Fund increased from a fund balance of \$89,719 at June 30, 2010 to an ending fund balance of \$117,345 at June 30, 2011, thus representing an increase of 30.79%.

The Daycare Fund increased from a fund balance of \$406,066 at June 30, 2010 to an ending fund balance of \$423,097 at June 30, 2011, thus representing an increase of 4.19%.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$410,484 less than budgeted revenues, a variance of 4.23%. 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.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2011, the District had invested \$4,451,917, 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 increase of 0.16% over last year. There is more detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$391,405.

The original cost of the District's capital assets was \$9,120,756. Governmental funds account for \$8,427,262 with the remainder of 693,494 in the Proprietary funds.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$0 at June 30, 2011, compared to \$145,540 reported at June 30, 2010. This decrease resulted from the District completing the library roof project.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental		Business type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-11
Land	\$ 236,245	236,245	-	-	236,245	236,245	0.00%
Construction in progress	-	145,540	-	-	-	145,540	-100.00%
Buildings	2,875,702	2,759,881	380,751	390,410	3,256,453	3,150,291	3.26%
Land improvements	366,308	312,618	-	-	366,308	312,618	14.66%
Machinery and equipment	490,700	518,657	102,211	81,340	592,911	599,997	-1.20%
Total	\$ 3,968,955	3,972,941	482,962	471,750	4,451,917	4,444,691	0.16%

## Long-Term Debt

At June 30, 2011, the District had \$697,042 in general obligation and other long-term debt outstanding. This represents an increase of 102.47% over last year. (See Figure A-7) Additional detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

During fiscal 2011, the District entered into an Apple Computer lease. At June 30, 2011, there is \$422,290 in principal to be paid on the lease.

The District had total outstanding early retirement payable from the Special Revenue, Management Levy Fund of \$251,596 at June 30, 2011.

The District has a net OPEB liability of \$23,156 as of June 30, 2011; \$21,753 is attributable to governmental activities, and \$1,398 is attributable to business type activities.

	Governmental Activities June 30,		Business type Activities June 30,		Total School District June 30,		Total Change June 30, 2010-11
	2011	2010	2011	2010	2011	2010	
Computer lease	\$ 422,290	-	-	-	422,290	-	100.00%
Capital loan	-	5,105	-	-	-	5,105	-100.00%
Early retirement	251,596	325,556	-	-	251,596	325,556	-22.72%
Net OPEB obligation	21,758	12,795	1,398	817	23,156	13,612	70.11%
Total	\$ 695,644	343,456	1,398	817	697,042	344,273	102.47%

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- There has been some discussion of building a new gym/drama stage along with a couple more classrooms. The estimated costs of these projects are \$4-5 million.
- Low allowable growth over several years and enrollment decreases may negatively impact the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget. The district's cash balance will support short term funding shortfalls from the state.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Connie Linney, District Secretary/Treasurer, Pekin Community School District, 1062 Birch Avenue, Packwood, Iowa, 52580.

PEKIN COMMUNITY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

PEKIN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2011

	Governmental Activities	Business type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 3,185,934	22,985	3,208,919
Receivables:			
Property tax:			
Delinquent	61,646	-	61,646
Succeeding year	3,478,884	-	3,478,884
Income surtax	204,141	-	204,141
Accounts	1,539	37,635	39,174
Due from other governments	353,436	881	354,317
Inventories	-	13,475	13,475
Capital assets not being depreciated:			
Land	236,245	-	236,245
Capital assets, net of accumulated depreciation:			
Buildings	2,875,702	380,751	3,256,453
Land improvements	366,308	-	366,308
Machinery and equipment	490,700	102,211	592,911
<b>Total assets</b>	<b>11,254,535</b>	<b>557,938</b>	<b>11,812,473</b>
<b>Liabilities</b>			
Accounts payable	85,973	734	86,707
Salaries and benefits payable	10,705	10,230	20,935
Accrued interest payable	12,088	-	12,088
Deferred revenue:			
Succeeding year property tax	3,478,884	-	3,478,884
Other	90,566	-	90,566
Unearned revenue	-	5,134	5,134
Long-term liabilities:			
Portion due within one year:			
Computer lease payable	136,570	-	136,570
Early retirement payable	82,329	-	82,329
Portion due after one year:			
Computer lease payable	285,720	-	285,720
Early retirement payable	169,267	-	169,267
Net OPEB liability	21,758	1,398	23,156
<b>Total liabilities</b>	<b>4,373,860</b>	<b>17,496</b>	<b>4,391,356</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	3,732,710	482,962	4,215,672
Restricted for:			
Categorical funding	365,661	-	365,661
Student activities	77,589	-	77,589
School infrastructure	272,446	-	272,446
Physical plant and equipment	306,891	-	306,891
Unrestricted	2,125,378	57,480	2,182,858
<b>Total net assets</b>	<b>\$ 6,880,675</b>	<b>540,442</b>	<b>7,421,117</b>

SEE NOTES TO FINANCIAL STATEMENTS

PEKIN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges	Operating Grants,	Govern- mental Activities	Business Type Activities	Total
		for Service	Contributions and Restricted Interest			
<b>Functions/Programs:</b>						
Governmental activities:						
Instruction:						
Regular	\$ 3,442,117	442,900	54,201	(2,945,016)	-	(2,945,016)
Special	740,007	18,776	36,816	(684,415)	-	(684,415)
Other	1,212,561	322,037	204,231	(686,293)	-	(686,293)
	<u>5,394,685</u>	<u>783,713</u>	<u>295,248</u>	<u>(4,315,724)</u>	<u>-</u>	<u>(4,315,724)</u>
Support services:						
Student	82,565	-	-	(82,565)	-	(82,565)
Instructional staff	209,969	-	277	(209,692)	-	(209,692)
Administration	576,835	26,474	1,500	(548,861)	-	(548,861)
Operation and maintenance of plant	654,218	-	-	(654,218)	-	(654,218)
Transportation	582,927	-	-	(582,927)	-	(582,927)
	<u>2,106,514</u>	<u>26,474</u>	<u>1,777</u>	<u>(2,078,263)</u>	<u>-</u>	<u>(2,078,263)</u>
Non-instructional programs:						
Food service operations	3,657	-	-	(3,657)	-	(3,657)
Other enterprise operations	12,438	-	-	(12,438)	-	(12,438)
	<u>16,095</u>	<u>-</u>	<u>-</u>	<u>(16,095)</u>	<u>-</u>	<u>(16,095)</u>
Other expenses:						
Long-term debt interest	28,954	-	-	(28,954)	-	(28,954)
AEA flowthrough	277,917	-	277,917	-	-	-
Depreciation(unallocated)*	187,512	-	-	(187,512)	-	(187,512)
	<u>494,383</u>	<u>-</u>	<u>277,917</u>	<u>(216,466)</u>	<u>-</u>	<u>(216,466)</u>
Total governmental activities	8,011,677	810,187	574,942	(6,626,548)	-	(6,626,548)
Business type activities:						
Non-instructional programs:						
Nutrition services	277,651	140,378	166,059	-	28,786	28,786
Day care services	265,464	265,977	-	-	513	513
Total business type activities	<u>543,115</u>	<u>406,355</u>	<u>166,059</u>	<u>-</u>	<u>29,299</u>	<u>29,299</u>
Total	\$ 8,554,792	1,216,542	741,001	(6,626,548)	29,299	(6,597,249)
<b>General Revenues:</b>						
Property tax for:						
General purposes				\$ 3,154,432	-	3,154,432
Capital outlay				120,171	-	120,171
Income surtax				231,182	-	231,182
Statewide sales, services and use tax				463,398	-	463,398
Unrestricted state grants				3,037,364	-	3,037,364
Nonspecific program federal grants				236,032	-	236,032
Unrestricted investment earnings				21,296	30	21,326
Other				83,497	15,328	98,825
Total general revenues				<u>7,347,372</u>	<u>15,358</u>	<u>7,362,730</u>
Change in net assets				720,824	44,657	765,481
Net assets beginning of year				6,159,851	495,785	6,655,636
Net assets end of year				<u>\$ 6,880,675</u>	<u>540,442</u>	<u>7,421,117</u>

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

SEE NOTES TO FINANCIAL STATEMENTS

PEKIN COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>Assets</b>				
Cash and pooled investments	\$ 2,077,843	812,197	295,894	3,185,934
Receivables:				
Property tax:				
Delinquent	55,736	2,262	3,648	61,646
Succeeding year	3,113,257	140,627	225,000	3,478,884
Income surtax	127,588	76,553	-	204,141
Accounts	1,539	-	-	1,539
Due from other governments	151,518	201,918	-	353,436
<b>Total assets</b>	<b>\$ 5,527,481</b>	<b>1,233,557</b>	<b>524,542</b>	<b>7,285,580</b>
<b>Liabilities and fund balances</b>				
Liabilities:				
Accounts payable	\$ 59,294	14,750	11,929	85,973
Salaries and benefits payable	10,705	-	-	10,705
Deferred revenue:				
Succeeding year property tax	3,113,257	140,627	225,000	3,478,884
Income surtax	127,588	76,553	-	204,141
Other	90,566	-	-	90,566
Total liabilities	3,401,410	231,930	236,929	3,870,269
Fund balances:				
Restricted for:				
Categorical funding	365,661	-	-	365,661
Management levy purposes	-	-	212,731	212,731
Student activities	-	-	77,589	77,589
School infrastructure	-	694,736	-	694,736
Physical plant and equipment	-	306,891	-	306,891
Unassigned:				
General	1,760,410	-	-	1,760,410
Student activities	-	-	(2,707)	(2,707)
Total fund balances	2,126,071	1,001,627	287,613	3,415,311
<b>Total liabilities and fund balances</b>	<b>\$ 5,527,481</b>	<b>1,233,557</b>	<b>524,542</b>	<b>7,285,580</b>

SEE NOTES TO FINANCIAL STATEMENTS

PEKIN COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2011

<b>Total fund balances of governmental funds (page 20)</b>	\$ 3,415,311
<b>Amounts reported for governmental activities in the statement of net assets are different because:</b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	3,968,955
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	204,141
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(12,088)
Long-term liabilities, including computer lease payable, other postemployment benefits payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(695,644)</u>
<b>Net assets of governmental activities (page 18)</b>	<u><u>\$ 6,880,675</u></u>

SEE NOTES TO FINANCIAL STATEMENTS

PEKIN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2011

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>Revenues:</b>				
Local sources:				
Local tax	\$ 3,087,987	659,942	193,734	3,941,663
Tuition	385,656	-	-	385,656
Other	160,997	32,218	341,216	534,431
Intermediate sources	1,454	-	-	1,454
State sources	3,457,861	-	-	3,457,861
Federal sources	383,916	-	-	383,916
<b>Total revenues</b>	<b>7,477,871</b>	<b>692,160</b>	<b>534,950</b>	<b>8,704,981</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	2,675,067	656,565	173,340	3,504,972
Special	738,231	-	-	738,231
Other	897,978	-	313,417	1,211,395
	<b>4,311,276</b>	<b>656,565</b>	<b>486,757</b>	<b>5,454,598</b>
Support services:				
Student	80,472	-	1,995	82,467
Instructional staff	203,487	5,073	1,064	209,624
Administration	553,786	-	20,722	574,508
Operation and maintenance of plant	558,414	14,054	51,371	623,839
Transportation	387,445	155,059	26,191	568,695
	<b>1,783,604</b>	<b>174,186</b>	<b>101,343</b>	<b>2,059,133</b>
Non-instructional programs:				
Food service operations	-	-	3,657	3,657
Other enterprise operations	12,438	-	-	12,438
	<b>12,438</b>	<b>-</b>	<b>3,657</b>	<b>16,095</b>
Other expenditures:				
Facilities acquisitions	-	235,991	-	235,991
Long-term debt:				
Principal	-	-	137,645	137,645
Interest and fiscal charges	-	-	16,866	16,866
AEA flowthrough	277,917	-	-	277,917
	<b>277,917</b>	<b>235,991</b>	<b>154,511</b>	<b>668,419</b>
<b>Total expenditures</b>	<b>6,385,235</b>	<b>1,066,742</b>	<b>746,268</b>	<b>8,198,245</b>
Excess(Deficiency) of revenues over(under) expenditures	1,092,636	(374,582)	(211,318)	506,736
Other financing sources(uses):				
Proceeds from computer lease	-	554,830	-	554,830
Transfer in	-	-	154,511	154,511
Transfer out	-	(154,511)	-	(154,511)
<b>Total other financing sources(uses)</b>	<b>-</b>	<b>400,319</b>	<b>154,511</b>	<b>554,830</b>
Net change in fund balances	1,092,636	25,737	(56,807)	1,061,566
Fund balances beginning of year, as restated	1,033,435	975,890	344,420	2,353,745
Fund balances end of year	<b>\$ 2,126,071</b>	<b>1,001,627</b>	<b>287,613</b>	<b>3,415,311</b>

SEE NOTES TO FINANCIAL STATEMENTS

PEKIN COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds (page 22) \$ 1,061,566

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

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

Capital outlays	\$ 369,243	
Depreciation expense	(373,229)	(3,986)

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

Issued	\$ (554,830)	
Repaid	137,645	(417,185)

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. (12,088)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 27,520

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement	\$ 73,960	
Other postemployment benefits	(8,963)	64,997

**Changes in net assets of governmental activities (page 19) \$ 720,824**

PEKIN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2011

	Enterprise		
	Day Care	Nonmajor School Nutrition	Total
<b>Assets</b>			
Current assets:			
Cash and pooled investments	\$ (45,901)	68,886	22,985
Accounts receivable	37,635	-	37,635
Due from other governments	-	881	881
Inventories	-	13,475	13,475
Total current assets	(8,266)	83,242	74,976
Non-current assets:			
Capital assets, net of accumulated depreciation:			
Buildings	380,751	-	380,751
Machinery and equipment	62,191	40,020	102,211
Total current assets	442,942	40,020	482,962
<b>Total assets</b>	434,676	123,262	557,938
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	399	335	734
Salaries and benefits payable	10,230	-	10,230
Unearned revenue	-	5,134	5,134
Total current liabilities	10,629	5,469	16,098
Long-term liabilities:			
Net OPEB liability	950	448	1,398
Total long-term liabilities	950	448	1,398
<b>Total liabilities</b>	11,579	5,917	17,496
<b>Net Assets</b>			
Invested in capital assets	442,942	40,020	482,962
Unrestricted	(19,845)	77,325	57,480
<b>Total net assets</b>	\$ 423,097	117,345	540,442

PEKIN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2011

	Enterprise		
	Day Care	Nonmajor School Nutrition	Total
Operating revenue:			
Local sources:			
Charges for services	\$ 265,977	140,378	406,355
Donations	5,000	-	5,000
Miscellaneous	11,518	3,810	15,328
Total operating revenue	<u>282,495</u>	<u>144,188</u>	<u>426,683</u>
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	-	80,107	80,107
Benefits	-	28,540	28,540
Services	-	729	729
Supplies	-	154,427	154,427
Depreciation	-	3,543	3,543
Other	-	10,305	10,305
	<u>-</u>	<u>277,651</u>	<u>277,651</u>
Other enterprise operations:			
Salaries	178,732	-	178,732
Benefits	65,018	-	65,018
Supplies	7,081	-	7,081
Depreciation	14,633	-	14,633
	<u>265,464</u>	<u>-</u>	<u>265,464</u>
Total operating expenses	<u>265,464</u>	<u>277,651</u>	<u>543,115</u>
Operating income(loss)	<u>17,031</u>	<u>(133,463)</u>	<u>(116,432)</u>
Non-operating revenues:			
State sources	-	3,069	3,069
Federal sources	-	157,990	157,990
Interest income	-	30	30
Total non-operating revenues	<u>-</u>	<u>161,089</u>	<u>161,089</u>
Change in net assets	17,031	27,626	44,657
Net assets beginning of year	<u>406,066</u>	<u>89,719</u>	<u>495,785</u>
Net assets end of year	<u>\$ 423,097</u>	<u>117,345</u>	<u>540,442</u>

SEE NOTES TO FINANCIAL STATEMENTS

PEKIN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2011

	Enterprise		
	Day Care	Nonmajor School Nutrition	
		Total	
Cash flows from operating activities:			
Cash received from operating activities	\$ 246,290	140,647	386,937
Cash received from miscellaneous	16,518	3,810	20,328
Cash payments to employees for services	(241,673)	(108,461)	(350,134)
Cash payments to suppliers for goods or services	(6,682)	(134,895)	(141,577)
Net cash provided by(used in) operating activities	<u>14,453</u>	<u>(98,899)</u>	<u>(84,446)</u>
Cash flows from non-capital financing activities:			
State grants received	-	3,069	3,069
Federal grants received	-	134,294	134,294
Net cash provided by non-capital financing activities	<u>-</u>	<u>137,363</u>	<u>137,363</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	-	(29,388)	(29,388)
Cash flows from investing activities:			
Interest on investments	-	30	30
Net increase in cash and cash equivalents	14,453	9,106	23,559
Cash and cash equivalents at beginning of year	(60,354)	59,780	(574)
Cash and cash equivalents at end of year	<u>\$ (45,901)</u>	<u>68,886</u>	<u>22,985</u>
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:			
Operating income(loss)	\$ 17,031	(133,463)	(116,432)
Adjustments to reconcile operating loss to net cash provided by(used in) operating activities:			
Commodities consumed	-	22,815	22,815
Depreciation	14,633	3,543	18,176
Decrease in inventories	-	7,416	7,416
Increase in accounts receivable	(19,687)	-	(19,687)
Increase in accounts payable	399	335	734
Increase in salaries and benefits payable	1,682	-	1,682
Increase in unearned revenue	-	269	269
Increase in other postemployment benefits liability	395	186	581
Net cash provided by(used in) operating activities	<u>\$ 14,453</u>	<u>(98,899)</u>	<u>(84,446)</u>

## NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2011, the District received Federal commodities valued at \$22,815.

SEE NOTES TO FINANCIAL STATEMENTS

PEKIN COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**(1) Summary of Significant Accounting Policies**

The Pekin Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Pekin and Packwood, Iowa, and the predominate agricultural territory in Washington, Keokuk, Wapello and Jefferson Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Pekin Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Pekin Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Washington, Keokuk, Wapello and Jefferson Counties Assessors' Conference Board.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

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

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds. Combining schedules are also included for the Capital Project Fund accounts.

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 and other capital assets.

The District reports the following major proprietary fund:

The Enterprise, Day Care Fund is used to account for transactions of the daycare operations of the District.

The District's other nonmajor proprietary fund is the School Nutrition Fund. The Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

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, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2010.

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	\$ 2,000
Buildings	2,000
Land improvements	2,000
Intangibles	25,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Day Care Fund equipment	500
Other machinery and equipment	2,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Intangibles	2 or more years
Machinery and equipment	5-20 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

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

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The unearned revenues in the Day Care Fund are monies collected in advance for tuition. The revenue will be considered earned when services are provided. The tuition and lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

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

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2011 were entirely covered by federal depository insurance or 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, 2011 the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$1,214,151 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 interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects: Physical Plant and Equipment Levy	\$ 5,105
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	<u>149,406</u>
Total		<u>\$ 154,511</u>

The transfer from Capital Projects: Physical Plant and Equipment Levy Fund to the Debt Service Fund was needed for the repayment of the playground resurfacing project.

The transfer from Capital Projects: Statewide Sales, Services and Use Tax Fund to the Debt Service was needed for payment of principal and interest on the District's Apple Computer lease.

**(4) Capital Assets**

Capital assets activity for the year ended June 30, 2011 is as follows:

	<u>Balance</u>			<u>Balance</u>
	<u>Beginning</u>			<u>End</u>
	<u>of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>of Year</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 236,245	-	-	236,245
Construction in progress	145,540	15,420	160,960	-
Total capital assets not being depreciated	<u>381,785</u>	<u>15,420</u>	<u>160,960</u>	<u>236,245</u>
Capital assets being depreciated:				
Buildings	5,323,386	275,023	-	5,598,409
Land improvements	718,004	82,000	-	800,004
Machinery and equipment	1,728,404	157,760	93,560	1,792,604
Total capital assets being depreciated	<u>7,769,794</u>	<u>514,783</u>	<u>93,560</u>	<u>8,191,017</u>
Less accumulated depreciation for:				
Buildings	2,563,505	159,202	-	2,722,707
Land improvements	405,386	28,310	-	433,696
Machinery and equipment	1,209,747	185,717	93,560	1,301,904
Total accumulated depreciation	<u>4,178,638</u>	<u>373,229</u>	<u>93,560</u>	<u>4,458,307</u>
Total capital assets being depreciated, net	<u>3,591,156</u>	<u>141,554</u>	-	<u>3,732,710</u>
Governmental activities capital assets, net	<u>\$ 3,972,941</u>	<u>156,974</u>	<u>160,960</u>	<u>3,968,955</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Business type activities:</b>				
Capital assets being depreciated:				
Buildings	\$ 475,654	-	-	475,654
Machinery and equipment	195,841	29,388	7,389	217,840
Total capital assets being depreciated	671,495	29,388	7,389	693,494
Less accumulated depreciation for:				
Buildings	85,244	9,659	-	94,903
Machinery and equipment	114,501	8,517	7,389	115,629
Total accumulated depreciation	199,745	18,176	7,389	210,532
Total capital assets being depreciated, net	471,750	11,212	-	482,962
Business type activities capital assets, net	\$ 471,750	11,212	-	482,962

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 6,496
Other		599
Support services:		
Administration		1,442
Operation and maintenance of plant		8,034
Transportation		169,146
		185,717
Unallocated depreciation		187,512
Total governmental activities depreciation expense		\$ 373,229
Business type activities:		
Food service		\$ 3,543
Day care		14,633
Total business type activities depreciation expense		\$ 18,176

**(5) Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2011 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
Computer lease	\$ -	554,830	132,540	422,290	136,570
Early retirement	325,556	-	73,960	251,596	82,329
Capital loan	5,105	-	5,105	-	-
Net OPEB liability	12,795	8,963	-	21,758	-
Total	\$ 343,456	563,793	211,605	695,644	218,899
Business type activities:					
Net OPEB liability	\$ 817	581	-	1,398	-

Computer Lease Payable

During the year ended June 30, 2011, the District entered into a lease agreement with Apple Computer Inc. for computers for the District's One on One Initiative. Annual principal and interest payments will be made from the Capital Projects: Statewide Sales, Services and Use Tax Fund. Details of the District's June 30, 2011 computer lease indebtedness are as follows:

Year Ending June 30,	Computer lease dated July 1, 2010				
	Interest Rates	Principal	Interest	Total	
2012	3.04	% \$ 136,570	12,836	149,406	
2013	3.04	140,720	8,686	149,406	
2014	3.04	145,000	4,406	149,406	
Total		\$ 422,290	25,928	448,218	

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed fifteen years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. The early retirement incentive for each eligible employee is equal to 50% of the employee's base salary calculated by using the current year regular salary schedule, less any other additional pay and subject to a maximum of \$20,000 per individual. Early retirement benefits paid during the year ended June 30, 2011 totaled \$73,960. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

**(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 4.50% of their annual covered salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$271,541, \$271,786, and \$265,134 respectively, equal to the required contributions for each year.

**(7) Other Postemployment Benefits**

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 54 active and 8 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark Blue Cross Blue Shield. Retirees under age 65 pay the same premium for the medical and prescription drug benefits as active employees, which result in an implicit rate subsidy and an OPEB liability. There is a \$150 per month explicit rate subsidy for the non-certified staff towards the monthly health premium for a maximum of three years.

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 and unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 38,251
Interest on net OPEB obligation	340
Adjustment to annual required contribution	(2,989)
Annual OPEB cost	<u>35,602</u>
Contributions made	(26,058)
Increase in net OPEB obligation	<u>9,544</u>
Net OPEB obligation beginning of year	<u>13,612</u>
Net OPEB obligation end of year	<u><u>\$ 23,156</u></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, 2011.

For the year ended June 30, 2011, the District contributed \$26,058 to the medical plan. Plan members eligible for benefits contributed \$0, or 0% 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, 2011 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 36,484	62.69%	\$ 13,612
2011	35,602	73.19%	23,156

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$333,884, with no actuarial value of assets, resulting in an

unfunded actuarial accrued liability (UAAL) of \$333,884. The covered payroll (annual payroll of active employees covered by the plan) was \$3,102,099, and the ratio of the UAAL to covered payroll was 10.76%. As of June 30, 2011 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 event far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present 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 July 1, 2009 actuarial valuation date, the Frozen Entry Age Actuarial Cost Method was used. The actuarial assumptions includes a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were based upon national termination studies in the 2006 Society of Actuaries Study.

The projected claim costs of the medical plan for retirees under age 65 are illustrated per month in the following table.

	Single	Family
\$100 Deductible	\$ 531.00	\$ 1,321.00
\$250 Deductible	506.00	1,259.00
\$500 Deductible	472.00	1,175.00
\$1000 Deductible	458.00	1,128.00
Wrap Plan	52.00	105.00

The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**(8) Risk Management**

Pekin Community School District is a member in the Southeast Iowa School Employees Benefits Health Plan, an Iowa Code Chapter 28E organization. The Southeast Iowa School Employees Benefits Health Plan (SEISHP) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa.

SEISHP was for the purpose of managing and funding employee benefits. SEISHP provides coverage and protection in the following categories: medical and dental.

Each member's contributions to SEISHP funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, SEISHP's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to SEISHP for the year ended June 30, 2011 was \$616,528.

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

Most members agree to continue membership in the pool for a period of not less than one full year. After such a period, a member who has given 30 days prior written notice may withdraw. SEISHP will pay claims incurred before the termination date.

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

**(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 \$277,917 for the year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(10) Deficit Fund Balance/Net Assets**

The District's Day Care fund had deficit unrestricted net assets at June 30, 2011 of \$19,845. The District also had a deficit unassigned Student Activity Fund balance of \$2,707 at June 30, 2011.

**(11) Accounting Change/Restatement**

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	Capital Projects	Special Revenue, Physical Plant and Equipment Levy
Balances June 30, 2010 as previously reported	\$ 643,877	332,013
Changes in fund type classification per implementation of GASB Statement No. 54	332,013	(332,013)
Balances July 1, 2010, as restated	\$ 975,890	0

**(12) Categorical Funding**

The District's ending restricted balances for categorical funding at June 30, 2011 is comprised of the following projects:

Project	Amount
At-risk supplemental weighting	\$ 13,816
Talented and gifted	110,145
Dropout and dropout prevention	153,786
Salary improvement program	60,128
Professional development	3,689
Beginning teacher mentoring	2,430
Core curriculum	19,107
Transportation assistance	2,560
Total	<u>\$ 365,661</u>

PEKIN COMMUNITY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

PEKIN 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, 2011

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Funds	Funds		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 4,861,750	426,713	5,288,463	5,482,400	5,482,400	(193,937)
Intermediate sources	1,454	-	1,454	-	-	1,454
State sources	3,457,861	3,069	3,460,930	3,825,837	3,825,837	(364,907)
Federal sources	383,916	157,990	541,906	395,000	395,000	146,906
Total revenues	8,704,981	587,772	9,292,753	9,703,237	9,703,237	(410,484)
Expenditures/expenses:						
Instruction	5,454,598	-	5,454,598	6,254,531	6,254,531	799,933
Support services	2,059,133	-	2,059,133	2,830,100	2,830,100	770,967
Non-instructional programs	16,095	543,115	559,210	616,000	616,000	56,790
Other expenditures	668,419	-	668,419	686,702	686,702	18,283
Total expenditures/expenses	8,198,245	543,115	8,741,360	10,387,333	10,387,333	1,645,973
Excess(Deficiency) of revenues over(under) expenditures/expenses	506,736	44,657	551,393	(684,096)	(684,096)	1,235,489
Other financing sources, net	554,830	-	554,830	-	-	554,830
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	1,061,566	44,657	1,106,223	(684,096)	(684,096)	1,790,319
Balances beginning of year	2,353,745	495,785	2,849,530	2,196,838	2,196,838	652,692
Balances end of year	\$ 3,415,311	540,442	3,955,753	1,512,742	1,512,742	2,443,011

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

PEKIN COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2011

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

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

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

PEKIN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FUNDING PROGRESS FOR THE  
RETIREE HEALTH PLAN  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2011

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 )	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	\$ 360,100	\$ 360,100	0.00%	\$ 3,759,606	9.58%
2011	July 1, 2009	-	333,884	333,884	0.00%	3,102,099	10.76%

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

PEKIN COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2011

	Special Revenue		
	Student Activity	Manage- ment Levy	Total Other Nonmajor Governmental Funds
<b>Assets</b>			
Cash and pooled investments	\$ 84,795	211,099	295,894
Receivables:			
Property tax:			
Delinquent	-	3,648	3,648
Succeeding year	-	225,000	225,000
<b>Total assets</b>	<b>\$ 84,795</b>	<b>439,747</b>	<b>524,542</b>
<b>Liabilities and fund balances</b>			
Liabilities:			
Accounts payable	\$ 9,913	2,016	11,929
Deferred revenue:			
Succeeding year property tax	-	225,000	225,000
Total liabilities	9,913	227,016	236,929
Fund balances:			
Restricted for:			
Management levy purposes	-	212,731	212,731
Student activities	77,589	-	77,589
Unassigned	(2,707)	-	(2,707)
Total fund balances	74,882	212,731	287,613
<b>Total liabilities and fund balances</b>	<b>\$ 84,795</b>	<b>439,747</b>	<b>524,542</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

PEKIN COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2011

	Special Revenue			Debt Service	Total Other Nonmajor Governmental Funds
	Student Activity	Manage- ment Levy	Total Special Revenue Funds		
Revenues:					
Local sources:					
Local tax	\$ -	193,734	193,734	-	193,734
Other	322,037	19,179	341,216	-	341,216
Total revenues	322,037	212,913	534,950	-	534,950
Expenditures:					
Current:					
Instruction:					
Regular	-	173,340	173,340	-	173,340
Other	313,417	-	313,417	-	313,417
Support services:					
Student	-	1,995	1,995	-	1,995
Instructional staff	-	1,064	1,064	-	1,064
Administration	-	20,722	20,722	-	20,722
Operation and maintenance of plant	278	51,093	51,371	-	51,371
Transportation	-	26,191	26,191	-	26,191
Non-instructional programs:					
Food service operations	-	3,657	3,657	-	3,657
Other expenditures:					
Long-term debt:					
Principal	-	-	-	137,645	137,645
Interest and fiscal charges	-	-	-	16,866	16,866
Total expenditures	313,695	278,062	591,757	154,511	746,268
Excess(Deficiency) of revenues over(under) expenditures	8,342	(65,149)	(56,807)	(154,511)	(211,318)
Other financing sources:					
Transfer in	-	-	-	154,511	154,511
Net change in fund balances	8,342	(65,149)	(56,807)	-	(56,807)
Fund balances beginning of year, as restated	66,540	277,880	344,420	-	344,420
Fund balances end of year	\$ 74,882	212,731	287,613	-	287,613

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

PEKIN COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECT ACCOUNTS  
 JUNE 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
<b>Assets</b>			
Cash and pooled investments	\$ 492,818	319,379	812,197
Receivables:			
Property tax:			
Delinquent	-	2,262	2,262
Succeeding year	-	140,627	140,627
Income surtax	-	76,553	76,553
Due from other governments	201,918	-	201,918
<b>Total assets</b>	<b>\$ 694,736</b>	<b>538,821</b>	<b>1,233,557</b>
<b>Liabilities and fund balances</b>			
Liabilities:			
Accounts payable	\$ -	14,750	14,750
Deferred revenue:			
Succeeding year property tax	-	140,627	140,627
Income surtax	-	76,553	76,553
Total liabilities	-	231,930	231,930
Fund balances:			
Restricted for:			
School infrastructure	694,736	-	694,736
Physical plant and equipment	-	306,891	306,891
Total fund balances	694,736	306,891	1,001,627
<b>Total liabilities and fund balances</b>	<b>\$ 694,736</b>	<b>538,821</b>	<b>1,233,557</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

PEKIN COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 CAPITAL PROJECT ACCOUNTS  
 YEAR ENDED JUNE 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ 463,398	196,544	659,942
Other	5,306	26,912	32,218
Total revenues	468,704	223,456	692,160
Expenditures:			
Current:			
Instruction:			
Regular	617,326	39,239	656,565
Support services:			
Instructional staff	5,073	-	5,073
Operation and maintenance of plant	10,626	3,428	14,054
Transportation	151,584	3,475	155,059
Other expenditures:			
Facilities acquisitions	38,660	197,331	235,991
Total expenditures	823,269	243,473	1,066,742
Deficiency of revenues under expenditures	(354,565)	(20,017)	(374,582)
Other financing sources(uses):			
Proceeds from computer lease	554,830	-	554,830
Transfer out	(149,406)	(5,105)	(154,511)
Total other financing sources(uses)	405,424	(5,105)	400,319
Net change in fund balances	50,859	(25,122)	25,737
Fund balances beginning of year, as restated	643,877	332,013	975,890
Fund balances end of year	\$ 694,736	306,891	1,001,627

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

PEKIN COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2011

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Music Department	\$ 1,359	50	577	832
HS Cross Country	1,034	7,052	6,574	1,512
HS Boys Basketball	865	11,024	9,106	2,783
HS Football	4,095	17,487	17,511	4,071
HS Baseball	2,622	13,922	14,736	1,808
HS Boys Track	5,144	8,933	8,692	5,385
HS Wrestling	-	3,351	3,276	75
HS Girls Basketball	8,385	19,569	16,671	11,283
HS Volleyball	472	4,271	4,743	-
HS Softball	2,964	11,281	14,245	-
HS Girls Track	5,807	10,887	7,813	8,881
National Honor Society	1,198	-	111	1,087
Athletics	(2,673)	25,569	22,896	-
Activity Charges	-	12,653	12,653	-
Class of 2011	2,381	17	2,398	-
Class of 2012	-	7,866	5,532	2,334
Milk Machine	1,410	1,643	2,060	993
Cheerleaders	713	3,677	3,977	413
Concessions	101	36,087	34,965	1,223
Dramatics/Musical	3,841	631	1,169	3,303
Spanish Club	855	715	362	1,208
FFA	48	37,068	33,563	3,553
FHA	11,408	4,355	4,001	11,762
Student Music	1,332	2,081	2,601	812
Student Insurance	-	342	342	-
Calendar	35	-	-	35
Student Activity	769	8,454	11,930	(2,707)
Student Council	1,642	499	366	1,775
Yearbook	-	12,608	12,608	-
After Prom	1,453	8,017	7,671	1,799
Middle School	1,398	666	2,064	-
Elementary Concession	1,608	381	1,989	-
Fitness Room	383	-	-	383
Industrial Arts	487	-	-	487
Drill Team	27	-	-	27
8th Grade Field Trip	-	43,132	40,737	2,395
Musical	388	2,889	1,772	1,505
Elementary Activities	4,989	4,860	3,984	5,865
<b>Total</b>	<b>\$ 66,540</b>	<b>322,037</b>	<b>313,695</b>	<b>74,882</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

	Modified Accrual Basis							
	Years Ended June 30,							
	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:								
Local sources:								
Local tax	\$ 3,941,663	3,803,885	3,625,322	3,285,942	3,195,068	2,957,599	2,853,138	2,492,680
Tuition	385,656	369,704	375,995	356,368	305,266	330,893	261,287	260,590
Other	534,431	545,105	575,838	539,029	646,224	494,350	444,753	448,049
Intermediate sources	1,454	-	-	-	-	-	-	-
State sources	3,457,861	2,947,462	3,482,412	3,527,865	3,146,151	3,079,811	3,053,864	2,806,402
Federal sources	383,916	584,562	187,302	196,305	238,102	261,531	290,661	171,328
Total	\$ 8,704,981	8,250,718	8,246,869	7,905,509	7,530,811	7,124,184	6,903,703	6,179,049
Expenditures:								
Current:								
Instruction:								
Regular	\$ 3,504,972	2,848,275	2,718,239	3,095,145	2,567,486	2,681,722	2,515,018	2,496,323
Special	738,231	891,569	761,407	825,341	681,974	771,791	637,900	708,829
Other	1,211,395	1,339,794	1,392,707	920,694	1,337,699	877,824	925,675	775,570
Support services:								
Student	82,467	105,973	104,328	92,250	86,846	133,614	105,128	175,913
Instructional staff	209,624	185,670	218,214	202,030	186,990	154,989	132,051	95,043
Administration	574,508	595,601	671,110	611,641	713,263	655,076	539,383	522,027
Operation and maintenance of plant	623,839	581,413	644,534	598,892	525,206	577,475	546,830	690,112
Transportation	568,695	591,922	607,463	580,514	412,694	607,359	428,914	415,915
Non-instructional programs	16,095	8,925	5,481	59,436	25,834	2,056	127,791	113,669
Other expenditures:								
Facilities acquisitions	235,991	650,255	334,573	197,485	353,805	13,422	294,017	6,000
Long-term debt:								
Principal	137,645	5,104	5,104	125,000	120,000	143,828	266,944	156,789
Interest and fiscal charges	16,866	-	-	10,825	9,315	11,540	21,266	23,450
AEA flow-through	277,917	278,015	247,428	239,400	215,287	205,154	203,860	202,864
Total	\$ 8,198,245	8,082,516	7,710,588	7,558,653	7,236,399	6,835,850	6,744,777	6,382,504

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

PEKIN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2011

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 11	\$ 11,680
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 11	146,310 *
			<u>157,990</u>
U.S. DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I CLUSTER PROGRAMS:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	FY 10	16,782
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	FY 11	77,824
			<u>94,606 **</u>
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES, RECOVERY ACT	84.389	FY 10	<u>10,822 **</u>
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 11	<u>6,157</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 11	<u>277</u>
ARRA FISCAL STABILIZATION CLUSTER:			
STATE FISCAL STABILIZATION FUND(SFSF)			
EDUCATION STATE GRANTS, RECOVERY ACT	84.394	FY 10	91,969
STATE FISCAL STABILIZATION FUND(SFSF)			
EDUCATION STATE GRANTS, RECOVERY ACT	84.394	FY 11	37,172
			<u>129,141 ***</u>
STATE FISCAL STABILIZATION FUND(SFSF)			
GOVERNMENT SERVICES, RECOVERY ACT	84.397	FY 11	<u>33,155 ***</u>
EDUCATION JOBS FUND	84.410	FY 11	<u>73,736</u>
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 11	<u>36,022</u>
TOTAL			<u>\$ 541,906</u>

\* - INCLUDES \$22,815 OF NON-CASH AWARDS

\*\* - TOTAL TITLE I CLUSTER IS \$105,428

\*\*\* - TOTAL ARRA STABILIZATION CLUSTER IS \$162,296

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Pekin Community School District and is presented in conformity with 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 50208-3040**

**Telephone (641) 792-1910**

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

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pekin Community School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 16, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pekin Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Pekin Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Pekin 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 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 on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Finding and Questioned Costs as item II-A-11 to be a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pekin Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not

express 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, 2011 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.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Pekin Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



NOLTE, CORNMAN & JOHNSON, P.C.

March 16, 2012

**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 Compliance with Requirements That Could Have  
a Direct and Material Effect on Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Board of Education of  
Pekin Community School District

Compliance

We have audited the compliance of Pekin 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 could have a direct and material effect on each of Pekin Community School District's major federal programs for the year ended June 30, 2011. Pekin 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 Pekin Community School District's management. Our responsibility is to express an opinion on Pekin Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing 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 Pekin 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 Pekin Community School District's compliance with those requirements.

In our opinion, Pekin Community School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of Pekin 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 Pekin 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 Pekin 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 the 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 Finding and Questionable Costs as item III-A-11 as a material weakness.

Pekin 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 Pekin 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 Pekin Community School District and other parties to whom Pekin 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 16, 2012

PEKIN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) A material weakness in internal control over financial reporting was 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 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 audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - Clustering:
    - CFDA Number 10.553 - School Breakfast Program
    - CFDA Number 10.555 - National School Lunch Program
  - Clustering:
    - CFDA Number 84.394 - State Fiscal Stabilization Fund - Education State Grants, Recovery Act.
    - CFDA Number 84.397 - State Fiscal Stabilization Fund - Government Services, Recovery Act.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Pekin Community School District did not qualify as a low-risk auditee.

PEKIN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES :

II-A-11 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The District will review their current procedures and make changes where necessary and feasible.

Conclusion - Response accepted.

PEKIN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 10.553: School Breakfast Program  
CFDA Number 10.555: National School Lunch Program  
Federal Award Year: 2011  
U.S. Department of Agriculture  
Passed through the Iowa Department of Education

CFDA Number 84.394: State Fiscal Stabilization Fund - Education State Grants, Recovery Act  
CFDA Number 84.397: State Fiscal Stabilization Fund - Government Services, Recovery Act  
Federal Award Year: 2010 & 2011  
U.S. Department of Education  
Passed through the Iowa Department of Education

III-A-11 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the duties of two individuals include preparing checks and recording the transactions in the general ledger.

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 - The District will continue to monitor its controls and make changes when the resources are available.

Conclusion - Response accepted.

PEKIN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-11 Certified Budget - District disbursements for the year ended June 30, 2011, did not exceed the amount budgeted.
- IV-B-11 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-C-11 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-11 Business Transactions - No business transactions between the District and District officials were noted.
- IV-E-11 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-11 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-G-11 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of resident students was overstated by 2 students.
- Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.
- Response - We have contacted the Iowa Department of Education and the Department of Management to adjust our certified enrollment.
- Conclusion - Response accepted.
- IV-H-11 Supplementary Weighting - No variance regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- IV-I-11 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-11 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-11 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
- IV-L-11 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services, and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the following information includes the amounts the District reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2011 audit.

Beginning Balance		\$	643,877
Revenues/transfers in:			
Sales tax revenues	\$	463,398	
Other local revenues		5,306	
Proceeds from computer lease		554,830	1,023,534
			<u>1,667,411</u>
Expenditures/transfers out:			
School infrastructure construction		16,235	
Buildings purchases		2,000	
Equipment		783,835	
Other		21,199	
Transfers to other funds:			
Debt service fund		149,406	972,675
			<u>972,675</u>
Ending balance		\$	<u>694,736</u>

For the year ended June 30, 2011, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

IV-M-11 Financial Condition - The District's Day Care fund had deficit unrestricted net assets of \$19,845 at June 30, 2011. The District also had a deficit unassigned Student Activity Fund balance of \$2,707 at June 30, 2011.

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

Response - The District is monitoring this problem and is working to eliminate the deficit in the Day Care Fund. The District will monitor the Activity Fund more closely to eliminate the deficit.

Conclusion - Response accepted.