

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

JUNE 30, 2012

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PCM Community School District

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--|----------------|---------------------|
| Board of Education (Before September 2011 Election) | | |
| Michele Wilkie | President | 2013 |
| Mike Streeter | Vice President | 2011 |
| Sandy Breckenridge | Board Member | 2011 |
| Lori Storm | Board Member | 2011 |
| Lana Wilson | Board Member | 2011 |
| Jean Jennings | Board Member | 2013 |
| John Woestman | Board Member | 2013 |

| | | |
|---|---------------------------|------|
| Board of Education (After September 2011 Election) | | |
| Jean Jennings | President | 2013 |
| Michele Wilkie | Vice President | 2013 |
| John Woestman | Board Member | 2013 |
| Mitchell Chipps | Board Member | 2015 |
| Greg Ingle | Board Member | 2015 |
| Lana Wilson | Board Member | 2015 |
| | (Resigned January 2011) | 2015 |
| Steve Nearnmeyer | Board Member | 2013 |
| | (Appointed March 2011) | 2013 |
| Lori Storm | Board Member | 2015 |
| | (Resigned November 2011) | 2015 |
| Grant Hjortshoj | Board Member | 2013 |
| | (Appointed November 2011) | 2013 |

| School Officials | | |
|-------------------------|---|------|
| Jane Babcock | Superintendent | 2012 |
| Jeana Van Voorst | District Secretary | 2012 |
| Brandon Hansel | District Treasurer/ Business Manager | 2012 |
| | (Resigned February 2012) | 2012 |
| Tami Thomas | District Treasurer/ Business Manager | 2012 |
| | (Appointed April 2012) | 2012 |
| Ahlers & Cooney, P.C. | Attorney | 2012 |

PCM 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
PCM Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of PCM Community School District, Prairie City, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of PCM Community School District at June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 7, 2013 on our consideration of PCM Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 44 through 46 be presented to supplement the basic

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financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise PCM Community School District's basic financial statements. We previously audited the financial statements for the previous eight years ended June 30, 2011 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



NOLTE, CORNMAN & JOHNSON, P.C.

February 7, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

PCM Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$10,093,013 in fiscal 2011 to \$10,431,304 in fiscal 2012, while General Fund expenditures increased from \$9,255,546 in fiscal 2011 to \$9,702,647 in fiscal 2012. This resulted in an increase in the District's General Fund balance from a balance of \$844,091 in fiscal 2011 to a balance of \$1,572,748 in fiscal 2012, an 86.32% increase from the prior year.
- The increase in General Fund revenues was attributable to increases in state and federal source revenues in fiscal 2012. The increase in expenditures was due primarily to increases in the instructional and support services functional areas during fiscal 2012.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Supplementary Information provides detailed information about the nonmajor governmental funds and capital project accounts. 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.

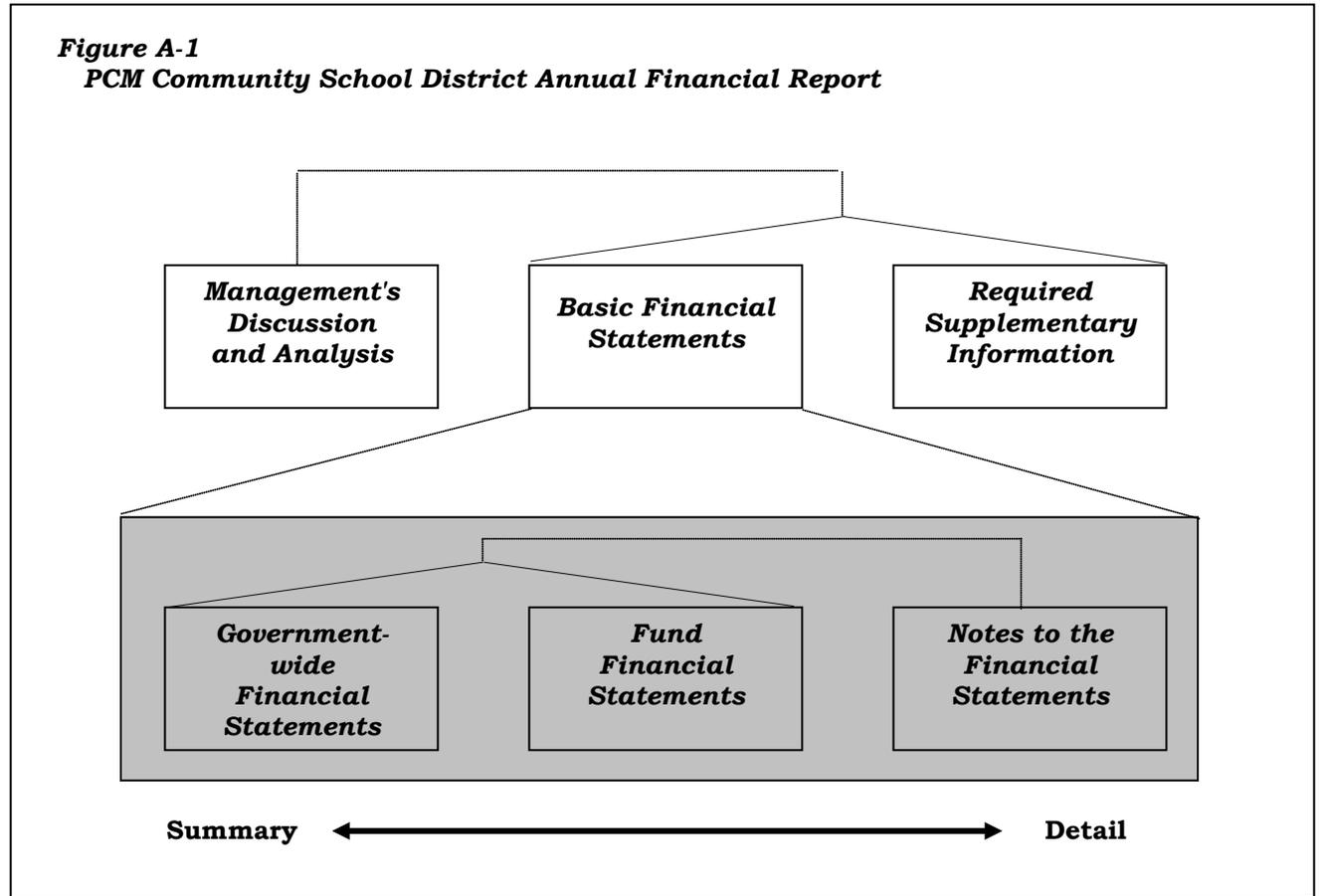


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

- 3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Private-Purpose Trust Fund.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2012 compared to June 30, 2011.

| Figure A-3 Condensed Statement of Net Assets | | | | | | | |
|--|----------------------------|------------|-----------------------------|---------|-------------------|------------|-----------------|
| | Governmental Activities | | Business Type Activities | | Total District | | Total Change |
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2011-12 |
| Current and other assets | \$ 8,356,406 | 7,614,771 | 120,511 | 90,519 | 8,476,917 | 7,705,290 | 10.01% |
| Capital assets | 5,006,605 | 4,208,983 | 18,638 | 24,351 | 5,025,243 | 4,233,334 | 18.71% |
| Total assets | 13,363,011 | 11,823,754 | 139,149 | 114,870 | 13,502,160 | 11,938,624 | 13.10% |
| Long-term liabilities | 780,292 | 1,011,307 | 4,930 | 3,271 | 785,222 | 1,014,578 | -22.61% |
| Other liabilities | 4,024,993 | 4,068,956 | 7,878 | 7,024 | 4,032,871 | 4,075,980 | -1.06% |
| Total liabilities | 4,805,285 | 5,080,263 | 12,808 | 10,295 | 4,818,093 | 5,090,558 | -5.35% |
| Net assets: | | | | | | | |
| Invested in capital assets, net of related debt | 4,766,012 | 3,721,257 | 18,638 | 24,351 | 4,784,650 | 3,745,608 | 27.74% |
| Restricted | 2,482,876 | 2,517,464 | - | - | 2,482,876 | 2,517,464 | -1.37% |
| Unrestricted | 1,308,838 | 504,770 | 107,703 | 80,224 | 1,416,541 | 584,994 | 142.15% |
| Total net assets | \$ 8,557,726 | 6,743,491 | 126,341 | 104,575 | 8,684,067 | 6,848,066 | 26.81% |

The District's combined net assets increased by 26.81%, or \$1,836,001 from the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased 1.37% or \$34,588 from the prior year. The decrease in restricted net assets is mainly attributable to a decrease in carryover categorical fund balances. At June 30, 2012, the amount of restricted assets for categorical funding was \$102,401 compared to \$188,102 at June 30, 2011.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased 142.15% or \$831,547. This increase is primarily due to the increase in carryover fund balance for the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2012 compared to the year ended June 30, 2011.

| | Figure A-4 Changes in Net Assets | | | | | | |
|--|-------------------------------------|------------|-----------------------------|---------|-------------------|------------|-----------------|
| | Governmental Activities | | Business Type Activities | | Total District | | Total Change |
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2011-12 |
| Revenues: | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for services | \$ 850,388 | 795,388 | 348,328 | 353,787 | 1,198,716 | 1,149,175 | 4.31% |
| Operating grants, contributions and restricted interest | 1,014,561 | 946,228 | 197,688 | 193,865 | 1,212,249 | 1,140,093 | 6.33% |
| Capital grants, contributions and restricted interest | 52,785 | 59,698 | - | - | 52,785 | 59,698 | -11.58% |
| General revenues: | | | | | | | |
| Property tax | 3,696,104 | 3,483,344 | - | - | 3,696,104 | 3,483,344 | 6.11% |
| Income surtax | 219,890 | 230,985 | - | - | 219,890 | 230,985 | -4.80% |
| Statewide sales, services and use tax | 780,638 | 842,042 | - | - | 780,638 | 842,042 | -7.29% |
| Unrestricted state grants | 5,320,776 | 4,963,394 | - | - | 5,320,776 | 4,963,394 | 7.20% |
| Nonspecific program federal grants | 137,123 | 170,311 | - | - | 137,123 | 170,311 | -19.49% |
| Unrestricted investment earnings | 6,870 | 6,093 | 225 | 195 | 7,095 | 6,288 | 12.83% |
| Other | 105,664 | 52,750 | - | 7,570 | 105,664 | 60,320 | 75.17% |
| Total revenues | 12,184,799 | 11,550,233 | 546,241 | 555,417 | 12,731,040 | 12,105,650 | 5.17% |
| Program expenses: | | | | | | | |
| Governmental activities: | | | | | | | |
| Instructional | 7,131,908 | 6,851,170 | - | - | 7,131,908 | 6,851,170 | 4.10% |
| Support services | 2,684,468 | 2,693,260 | - | - | 2,684,468 | 2,693,260 | -0.33% |
| Non-instructional programs | 3,913 | 3,675 | 524,475 | 543,597 | 528,388 | 547,272 | -3.45% |
| Long-term debt interest | 22,318 | 35,140 | - | - | 22,318 | 35,140 | -36.49% |
| Other expenses | 527,957 | 544,696 | - | - | 527,957 | 544,696 | -3.07% |
| Total expenses | 10,370,564 | 10,127,941 | 524,475 | 543,597 | 10,895,039 | 10,671,538 | 2.09% |
| Change in net assets | 1,814,235 | 1,422,292 | 21,766 | 11,820 | 1,836,001 | 1,434,112 | 28.02% |
| Net assets beginning of year | 6,743,491 | 5,321,199 | 104,575 | 92,755 | 6,848,066 | 5,413,954 | 26.49% |
| Net assets end of year | \$ 8,557,726 | 6,743,491 | 126,341 | 104,575 | 8,684,067 | 6,848,066 | 26.81% |

In fiscal 2012, property tax, income surtax, statewide sales, services and services tax and unrestricted state grants account for 82.21% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.96% of the revenue from business type activities.

The District's total revenues were approximately \$12.73 million of which approximately \$12.19 million was for governmental activities and approximately \$0.54 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 5.17% increase in revenues and a 2.09% increase in expenses. Property tax increased \$212,760 to fund the increase in expenses. The increase in expenses is related to the increase in negotiated salaries and benefits received by District employees.

Governmental Activities

Revenues for governmental activities were \$12,184,799 and expenses were \$10,370,564.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs, long-term debt interest and other expenses, for the year ended June 30, 2012 compared to the year ended June 30, 2011.

| | Total Cost of Services | | | Net Cost of Services | | |
|---------------------------|------------------------|------------|-------------------|----------------------|-----------|-------------------|
| | 2012 | 2011 | Change 2011-12 | 2012 | 2011 | Change 2011-12 |
| Instruction | \$ 7,131,908 | 6,851,170 | 4.10% | 5,648,928 | 5,601,033 | 0.86% |
| Support services | 2,684,468 | 2,693,260 | -0.33% | 2,622,499 | 2,543,622 | 3.10% |
| Non-instructional program | 3,913 | 3,675 | 6.48% | 3,913 | 3,675 | 6.48% |
| Long-term debt interest | 22,318 | 35,140 | -36.49% | 22,318 | 35,140 | -36.49% |
| Other expenses | 527,957 | 544,696 | -3.07% | 155,172 | 143,157 | 8.39% |
| Totals | \$ 10,370,564 | 10,127,941 | 2.40% | 8,452,830 | 8,326,627 | 1.52% |

For the year ended June 30, 2012:

- The cost financed by users of the District's programs was \$850,388.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,067,346.
- The net cost of governmental activities was financed with \$3,696,104 in property tax, \$219,890 in income surtax, \$780,638 in statewide sales, services and use tax, \$5,320,776 in unrestricted state grants, \$137,123 in nonspecific program federal grants, \$6,870 in unrestricted investment earnings, and \$105,664 in other income.

Business Type Activities

Revenues of the District's business type activities during the year ended June 30, 2012 were \$546,241, while expenses were \$524,475. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$4,091,558, compared to last year's ending fund balances of \$3,322,604.

Governmental Fund Highlights

- The District's improvement in the General Fund financial position is the product of many factors. Increased expenditures were outpaced by an increase in revenues. The increase in revenues was largely attributable to increased state and federal monies received.
- The Capital Projects Accounts fund balance increased from \$2,214,967 in fiscal 2011 to \$2,247,562 in fiscal 2012. The Capital Projects Accounts are comprised of the Statewide Sales, Services and Use Tax Fund and the Physical Plant and Equipment Levy Fund. The Statewide Sales, Services and Use Tax Fund decreased from \$2,013,162 at June 30, 2011 to a balance of \$1,993,923 at June 30, 2012. The Physical Plant and Equipment Levy Fund increased from a balance of \$201,805 at June 30, 2011 to a balance of \$253,639 at June 30, 2012.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$104,575 at June 30, 2011 to \$126,341 at June 30, 2012, representing an increase of approximately 20.81%.

BUDGETARY HIGHLIGHTS

Over the course of the year, the PCM Community School District adopted one budget amendment for expenditures related to the support services functional area.

The District's revenues were \$547,210 more than budgeted revenues, a variance of 4.49%. The most significant variance other than intermediate sources resulted from the District receiving more in federal 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, 2012, the District had invested \$5,025,243, 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 18.71% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$245,963.

The original cost of the District's capital assets was \$10,210,269. Governmental funds account for \$9,944,654 with the remainder \$265,615 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$397,401 at June 30, 2012, compared to \$319,460 reported at June 30, 2011. The increase is mainly the result of a bus and a suburban purchase made during the year.

Figure A-6
Capital Assets, Net of Depreciation

| | Governmental Activities | | Business Type Activities | | Total District | | Total Change |
|-----------------------------------|-------------------------|-----------|--------------------------|--------|----------------|-----------|--------------|
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2011-12 |
| Land | \$ 156,462 | 156,462 | - | - | 156,462 | 156,462 | 0.00% |
| Improvements other than buildings | 19,348 | 20,535 | - | - | 19,348 | 20,535 | -5.78% |
| Buildings | 4,452,032 | 3,736,877 | - | - | 4,452,032 | 3,736,877 | 19.14% |
| Machinery and equipment | 378,763 | 295,109 | 18,638 | 24,351 | 397,401 | 319,460 | 24.40% |
| Total | \$ 5,006,605 | 4,208,983 | 18,638 | 24,351 | 5,025,243 | 4,233,334 | 18.71% |

Long-Term Debt

At June 30, 2012, the District had \$785,222 in total long-term debt outstanding. This represents a decrease of approximately 22.61% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District also had total outstanding early retirement of \$421,759 at June 30, 2012 payable from the Management Fund.

The District had and a separation agreement with a former employee of \$15,244 at June 30, 2012 payable from the General Fund.

The District had an outstanding computer lease obligation of \$240,593 at June 30, 2012 payable from the Capital Projects: Statewide Sales, Services and Use Tax Fund.

The District had a net OPEB liability of \$107,626 at June 30, 2012.

Figure A-7
Outstanding Long-Term Debt Obligations

| | Governmental Activities | | Business Type Activities | | Total District | | Total Change |
|----------------------|-------------------------|-----------|--------------------------|-------|----------------|-----------|--------------|
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2011-12 |
| Revenue bonds | \$ - | 18,750 | - | - | - | 18,750 | -100.00% |
| Early retirement | 421,759 | 432,407 | - | - | 421,759 | 432,407 | -2.46% |
| Separation agreement | 15,244 | 23,031 | - | - | 15,244 | 23,031 | -33.81% |
| Computer lease | 240,593 | 468,976 | - | - | 240,593 | 468,976 | -48.70% |
| Net OPEB liability | 102,696 | 68,143 | 4,930 | 3,271 | 107,626 | 71,414 | 50.71% |
| Total | \$ 780,292 | 1,011,307 | 4,930 | 3,271 | 785,222 | 1,014,578 | -22.61% |

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Increases in health insurance premiums, along with salaries and benefits for the employees is always a concern for the District.

-
- Low allowable growth over several years and enrollment fluctuations is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
 - Development along Highway 163 has the potential for new economic opportunities, which could positively affect the District in the future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Tami Thomas, District Treasurer/Business Manager, PCM Community School District, 400 N. Jasper, P.O. Box 610, Monroe, IA 50170.

BASIC FINANCIAL STATEMENTS

PCM COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

| | Governmental Activities | Business Type Activities | Total |
|--|----------------------------|-----------------------------|-------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 3,872,123 | 99,643 | 3,971,766 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 41,440 | - | 41,440 |
| Succeeding year | 3,858,686 | - | 3,858,686 |
| Income surtax | 223,060 | - | 223,060 |
| Accounts | 331 | - | 331 |
| Due from other governments | 360,766 | - | 360,766 |
| Inventories | - | 20,868 | 20,868 |
| Capital assets, net of accumulated depreciation | 5,006,605 | 18,638 | 5,025,243 |
| Total assets | 13,363,011 | 139,149 | 13,502,160 |
| Liabilities | | | |
| Accounts payable | 164,210 | - | 164,210 |
| Interest payable | 2,097 | - | 2,097 |
| Deferred revenue: | | | |
| Succeeding year property tax | 3,858,686 | - | 3,858,686 |
| Unearned revenue | - | 7,878 | 7,878 |
| Long-term liabilities: | | | |
| Portion due within one year: | | | |
| Computer lease payable | 240,593 | - | 240,593 |
| Early retirement payable | 127,428 | - | 127,428 |
| Seperation agreement payable | 7,429 | - | 7,429 |
| Portion due after one year: | | | |
| Early retirement payable | 294,331 | - | 294,331 |
| Seperation agreement payable | 7,815 | - | 7,815 |
| Net OPEB liability | 102,696 | 4,930 | 107,626 |
| Total liabilities | 4,805,285 | 12,808 | 4,818,093 |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 4,766,012 | 18,638 | 4,784,650 |
| Restricted for: | | | |
| Categorical funding | 102,401 | - | 102,401 |
| Student activities | 132,913 | - | 132,913 |
| School infrastructure | 1,993,923 | - | 1,993,923 |
| Physical plant and equipment | 253,639 | - | 253,639 |
| Unrestricted | 1,308,838 | 107,703 | 1,416,541 |
| Total assets | \$ 8,557,726 | 126,341 | 8,684,067 |

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

| | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets | | |
|---------------------------------------|------------------|-----------------|----------------------------|----------------------------|--|--------------------------------|--------------------|
| | Expenses | Charges | Contributions | Contributions | Govern- mental Activities | Business Type Activities | Total |
| | | for Services | and Restricted Interest | and Restricted Interest | | | |
| Functions/Programs: | | | | | | | |
| Governmental activities: | | | | | | | |
| Instruction: | | | | | | | |
| Regular | \$ 4,074,867 | 410,646 | 78,147 | - | (3,586,074) | - | (3,586,074) |
| Special | 1,635,494 | 106,529 | 285,982 | - | (1,242,983) | - | (1,242,983) |
| Other | 1,421,547 | 333,213 | 268,463 | - | (819,871) | - | (819,871) |
| | <u>7,131,908</u> | <u>850,388</u> | <u>632,592</u> | <u>-</u> | <u>(5,648,928)</u> | <u>-</u> | <u>(5,648,928)</u> |
| Support services: | | | | | | | |
| Student | 257,912 | - | - | - | (257,912) | - | (257,912) |
| Instructional | 422,726 | - | - | - | (422,726) | - | (422,726) |
| Administration | 927,981 | - | - | - | (927,981) | - | (927,981) |
| Operation and maintenance of plant | 653,081 | - | - | 52,785 | (600,296) | - | (600,296) |
| Transportation | 422,768 | - | 9,184 | - | (413,584) | - | (413,584) |
| | <u>2,684,468</u> | <u>-</u> | <u>9,184</u> | <u>52,785</u> | <u>(2,622,499)</u> | <u>-</u> | <u>(2,622,499)</u> |
| Non-instructional programs: | | | | | | | |
| Food service operations | 3,913 | - | - | - | (3,913) | - | (3,913) |
| Long-term debt interest | | | | | | | |
| | 22,318 | - | - | - | (22,318) | - | (22,318) |
| Other expenditures: | | | | | | | |
| AEA flowthrough | 372,785 | - | 372,785 | - | - | - | - |
| Depreciation(unallocated)* | 155,172 | - | - | - | (155,172) | - | (155,172) |
| | <u>527,957</u> | <u>-</u> | <u>372,785</u> | <u>-</u> | <u>(155,172)</u> | <u>-</u> | <u>(155,172)</u> |
| Total governmental activities | 10,370,564 | 850,388 | 1,014,561 | 52,785 | (8,452,830) | - | (8,452,830) |
| Business type activities: | | | | | | | |
| Non-instructional programs: | | | | | | | |
| Nutrition services | 524,475 | 348,328 | 197,688 | - | - | 21,541 | 21,541 |
| Total business type activities | <u>524,475</u> | <u>348,328</u> | <u>197,688</u> | <u>-</u> | <u>-</u> | <u>21,541</u> | <u>21,541</u> |
| Total | \$ 10,895,039 | 1,198,716 | 1,212,249 | 52,785 | (8,452,830) | 21,541 | (8,431,289) |
| General Revenues: | | | | | | | |
| Local tax for: | | | | | | | |
| General purposes | | | | | \$ 3,456,542 | - | 3,456,542 |
| Capital outlay | | | | | 239,562 | - | 239,562 |
| Income surtax | | | | | 219,890 | - | 219,890 |
| Statewide sales, services and use tax | | | | | 780,638 | - | 780,638 |
| Unrestricted state grants | | | | | 5,320,776 | - | 5,320,776 |
| Nonspecific program federal grants | | | | | 137,123 | - | 137,123 |
| Unrestricted investment earnings | | | | | 6,870 | 225 | 7,095 |
| Other | | | | | 105,664 | - | 105,664 |
| Total general revenues | | | | | <u>10,267,065</u> | <u>225</u> | <u>10,267,290</u> |
| Changes in net assets | | | | | 1,814,235 | 21,766 | 1,836,001 |
| Net assets beginning of year | | | | | 6,743,491 | 104,575 | 6,848,066 |
| Net assets end of year | | | | | <u>\$ 8,557,726</u> | <u>126,341</u> | <u>8,684,067</u> |

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

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

| | General | Capital Projects | Other Nonmajor Governmental Funds | Total |
|--|---------------------|---------------------|--|------------------|
| Assets | | | | |
| Cash and pooled investments | \$ 1,582,138 | 1,999,205 | 271,888 | 3,853,231 |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | 35,506 | 2,801 | 3,133 | 41,440 |
| Succeeding year | 3,325,772 | 252,914 | 280,000 | 3,858,686 |
| Income surtax | 223,060 | - | - | 223,060 |
| Accounts | 331 | - | - | 331 |
| Due from other governments | 115,210 | 245,556 | - | 360,766 |
| Total assets | \$ 5,282,017 | 2,500,476 | 555,021 | 8,337,514 |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 160,437 | - | 3,773 | 164,210 |
| Deferred revenue: | | | | |
| Succeeding year property tax | 3,325,772 | 252,914 | 280,000 | 3,858,686 |
| Income surtax | 223,060 | - | - | 223,060 |
| Total liabilities | 3,709,269 | 252,914 | 283,773 | 4,245,956 |
| Fund balances: | | | | |
| Restricted for: | | | | |
| Categorical funding | 102,401 | - | - | 102,401 |
| Management levy purposes | - | - | 138,335 | 138,335 |
| Student activities | - | - | 132,913 | 132,913 |
| School infrastructure | - | 1,993,923 | - | 1,993,923 |
| Physical plant and equipment | - | 253,639 | - | 253,639 |
| Unassigned | 1,470,347 | - | - | 1,470,347 |
| Total fund balances | 1,572,748 | 2,247,562 | 271,248 | 4,091,558 |
| Total liabilities and fund balances | \$ 5,282,017 | 2,500,476 | 555,021 | 8,337,514 |

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2012

| | |
|--|----------------------------|
| Total fund balances of governmental funds(page 20) | \$ 4,091,558 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. | 5,006,605 |
| Blending of the Internal Service Funds to be reflected on an entity-wide basis. | 18,892 |
| Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds. | (2,097) |
| Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period. | 223,060 |
| Long-term liabilities, including computer lease payable, early retirement payable, separation agreement payable, and other postemployment benefits are not due and payable in the current period and, therefore, are not reported in the governmental funds. | <u>(780,292)</u> |
| Net assets of governmental activities(page 18) | <u><u>\$ 8,557,726</u></u> |

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

| | General | Capital Projects | Other Nonmajor Governmental Funds | Total |
|---|---------------------|---------------------|--|-------------------|
| Revenues: | | | | |
| Local sources: | | | | |
| Local tax | \$ 3,400,477 | 1,020,200 | 280,194 | 4,700,871 |
| Tuition | 467,182 | - | - | 467,182 |
| Other | 104,410 | 56,086 | 415,523 | 576,019 |
| Intermediate sources | 800 | - | - | 800 |
| State sources | 5,951,630 | 120 | 136 | 5,951,886 |
| Federal sources | 492,280 | - | - | 492,280 |
| Total revenues | <u>10,416,779</u> | <u>1,076,406</u> | <u>695,853</u> | <u>12,189,038</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 3,947,741 | - | 182,625 | 4,130,366 |
| Special | 1,607,393 | - | - | 1,607,393 |
| Other | 1,102,157 | - | 315,750 | 1,417,907 |
| | <u>6,657,291</u> | <u>-</u> | <u>498,375</u> | <u>7,155,666</u> |
| Support services: | | | | |
| Student | 262,781 | - | 1,211 | 263,992 |
| Instructional | 428,224 | - | - | 428,224 |
| Administration | 946,160 | - | 6,764 | 952,924 |
| Operation and maintenance of plant | 623,648 | - | 62,921 | 686,569 |
| Transportation | 411,758 | 7,533 | 47,115 | 466,406 |
| | <u>2,672,571</u> | <u>7,533</u> | <u>118,011</u> | <u>2,798,115</u> |
| Non-instructional programs: | | | | |
| Food service operations | - | - | 4,778 | 4,778 |
| Capital outlay | - | 831,823 | - | 831,823 |
| Long-term debt: | | | | |
| Principal | - | - | 247,133 | 247,133 |
| Interest and fiscal charges | - | - | 24,309 | 24,309 |
| | <u>-</u> | <u>-</u> | <u>271,442</u> | <u>271,442</u> |
| Other expenditures: | | | | |
| AEA flowthrough | 372,785 | - | - | 372,785 |
| Total expenditures | <u>9,702,647</u> | <u>839,356</u> | <u>892,606</u> | <u>11,434,609</u> |
| Excess(Deficiency)of revenues over(under) expenditures | 714,132 | 237,050 | (196,753) | 754,429 |
| Other financing sources(uses): | | | | |
| Transfer in | - | - | 204,455 | 204,455 |
| Transfer out | - | (204,455) | - | (204,455) |
| Sale of equipment | 14,525 | - | - | 14,525 |
| Total other financing sources(uses) | <u>14,525</u> | <u>(204,455)</u> | <u>204,455</u> | <u>14,525</u> |
| Net change in fund balances | 728,657 | 32,595 | 7,702 | 768,954 |
| Fund balances beginning of year | 844,091 | 2,214,967 | 263,546 | 3,322,604 |
| Fund balances end of year | <u>\$ 1,572,748</u> | <u>2,247,562</u> | <u>271,248</u> | <u>4,091,558</u> |

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

| | | |
|---|------------------|-------------------------|
| Net change in fund balances - total governmental funds(page 22) | \$ | 768,954 |
| <i>Amounts reported for governmental activities in the statement of activities are different because:</i> | | |
| Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures and depreciation expense in the current year are as follows: | | |
| Capital expenditures | \$ 1,037,872 | |
| Depreciation expense | <u>(240,250)</u> | 797,622 |
| 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: | | |
| | | 247,133 |
| Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. | | |
| | | 18,892 |
| Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. | | |
| | | 1,991 |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows: | | |
| Early retirement | \$ 10,648 | |
| Seperation agreement | 7,787 | |
| Other postemployment benefits | <u>(34,553)</u> | (16,118) |
| Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. | | |
| | | <u>(4,239)</u> |
| Changes in net assets of governmental activities(page 19) | \$ | <u>1,814,235</u> |

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2012

| | Business Type Activities: <u>Enterprise Fund</u> School Nutrition | Governmental Activities: Internal Service Fund |
|---|---|--|
| Assets | | |
| Cash and cash equivalents | \$ 99,643 | 18,892 |
| Inventories | 20,868 | - |
| Capital assets, net of accumulated depreciation | 18,638 | - |
| Total assets | <u>139,149</u> | <u>18,892</u> |
| Liabilities | | |
| Unearned revenues | 7,878 | - |
| Net OPEB liability | 4,930 | - |
| Total liabilities | <u>12,808</u> | <u>-</u> |
| Net Assets | | |
| Invested in capital assets | 18,638 | - |
| Unrestricted | 107,703 | 18,892 |
| Total net assets | <u>\$ 126,341</u> | <u>18,892</u> |

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2012

| | Business Type Activities: <u>Enterprise Fund</u> School Nutrition | Governmental Activities: Internal Service Fund |
|------------------------------|---|--|
| Operating revenue: | | |
| Local sources: | | |
| Charges for services | \$ 348,328 | - |
| Donations | 6,009 | - |
| Miscellaneous | - | 18,892 |
| Total operating revenue | <u>354,337</u> | <u>18,892</u> |
| Operating expenses: | | |
| Non-instructional programs: | | |
| Food service operations: | | |
| Salaries | 154,980 | - |
| Benefits | 80,855 | - |
| Services | 55,377 | - |
| Supplies | 227,470 | - |
| Other | 80 | - |
| Depreciation | 5,713 | - |
| Total operating expenses | <u>524,475</u> | <u>-</u> |
| Operating income(loss) | (170,138) | 18,892 |
| Non-operating revenues: | | |
| Interest | 225 | - |
| State sources | 4,499 | - |
| Federal sources | 187,180 | - |
| Total non-operating revenues | <u>191,904</u> | <u>-</u> |
| Change in net assets | 21,766 | 18,892 |
| Net assets beginning of year | <u>104,575</u> | <u>-</u> |
| Net assets end of year | <u>\$ 126,341</u> | <u>18,892</u> |

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2012

| | Business Type Activities: <u>Enterprise Fund</u> School Nutrition | Governmental Activities: Internal Service Fund |
|--|---|--|
| Cash flows from operating activities: | | |
| Cash received from sale of lunches and breakfasts | \$ 349,228 | - |
| Cash received from donations | 6,009 | - |
| Cash received from miscellaneous operating activities | - | 18,892 |
| Cash paid to employees for services | (234,176) | - |
| Cash paid to suppliers for goods or services | (248,068) | - |
| Net cash provided by(used in) operating activities | <u>(127,007)</u> | <u>18,892</u> |
| Cash flows from non-capital financing activities: | | |
| State grants received | 4,499 | - |
| Federal grants received | 153,139 | - |
| Net cash provided by non-capital financing activities | <u>157,638</u> | <u>-</u> |
| Cash flows from investing activities: | | |
| Interest on investments | 225 | - |
| Net increase in cash and cash equivalents | 30,856 | 18,892 |
| Cash and cash equivalents beginning of year | 68,787 | - |
| Cash and cash equivalents end of year | <u>\$ 99,643</u> | <u>18,892</u> |
| Reconciliation of operating income(loss) to net cash provided by(used in) operating activities: | | |
| Operating income(loss) | \$ (170,138) | 18,892 |
| Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities: | | |
| Commodities used | 34,041 | - |
| Depreciation | 5,713 | - |
| Decrease in inventories | 864 | - |
| Decrease in accounts payable | (46) | - |
| Increase in unearned revenue | 900 | - |
| Increase in net OPEB liability | 1,659 | - |
| Net cash provided by(used in) operating activities | <u>\$ (127,007)</u> | <u>18,892</u> |

Non-cash investing, capital and related financing activities:

During the year ended June 30, 2012, the District received federal commodities valued at \$34,041.

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 JUNE 30, 2012

| | Private Purpose Trust | Scholarship |
|-----------------------------|--------------------------|-------------|
| Assets | | |
| Cash and pooled investments | \$ | 55,802 |
| Liabilities | | - |
| Net assets | | |
| Restricted for scholarships | \$ | 55,802 |

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2012

| | Private Purpose Trust |
|------------------------------|--------------------------|
| | Scholarship |
| Additions: | |
| Local sources: | |
| Interest income | \$ 844 |
| Deductions: | |
| Instruction: | |
| Support services: | |
| Administration services | 75 |
| Change in net assets | 769 |
| Net assets beginning of year | 55,033 |
| Net assets end of year | \$ 55,802 |

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

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

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

A. Reporting Entity

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

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

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which

normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

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

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

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

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

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

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

The District's proprietary funds include the Enterprise, School Nutrition Fund and the Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the District's flex spending benefits received by District employees.

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund is as follows:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2011.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment and intangibles are reported in the applicable governmental or business type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

| Asset Class | Amount |
|---------------------------------|----------|
| Land | \$ 1,500 |
| Buildings | 1,500 |
| Land improvements | 1,500 |
| Intangibles | 25,000 |
| Machinery and equipment: | |
| School Nutrition Fund equipment | 500 |
| Other machinery and equipment | 1,500 |

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

| Asset Class | Estimated Useful Lives (In Years) |
|-------------------------|---|
| Buildings | 50 years |
| Land improvements | 20 years |
| Intangibles | ≥ 2 years |
| Machinery and equipment | 5-12 years |

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

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

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

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

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

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

E. Budgets and Budgetary Accounting

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

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2012, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$10,277 pursuant to rule 2a-7 under the Investment Company Act of 1940. The investments in the Iowa Schools Joint Investment Trust was rated AAA by Standard and Poor's Financial Services.

(3) **Transfers**

The detail of transfers for the year ended June 30, 2012 is as follows:

| Transfer to | Transfer from | Amount |
|--------------|----------------------|--------------------------|
| | Capital Projects: | |
| | Physical Plant and | |
| Debt Service | Equipment Levy | \$ 185,368 |
| | Capital Projects: | |
| | Statewide Sales, | |
| Debt Service | Services and Use Tax | <u>19,087</u> |
| Total | | <u><u>\$ 204,455</u></u> |

The Capital Projects: Physical Plant and Equipment Levy Fund transfer to Debt Service was needed for principal and interest payments on the District's computer lease indebtedness.

The transfer from Capital Projects: Statewide Sales, Services and Use Tax to Debt Service was needed for the final payment of principal and interest for the revenue bonds dated April 13, 2005.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2012 is as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|--|---------------------------------|------------------|---------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 156,462 | - | - | 156,462 |
| Total capital assets not being depreciated | <u>156,462</u> | <u>-</u> | <u>-</u> | <u>156,462</u> |
| Capital assets being depreciated: | | | | |
| Improvements other than buildings | 23,740 | - | - | 23,740 |
| Buildings | 7,315,664 | 869,140 | - | 8,184,804 |
| Machinery and equipment | 1,447,371 | 168,732 | 36,455 | 1,579,648 |
| Total capital assets being depreciated | <u>8,786,775</u> | <u>1,037,872</u> | <u>36,455</u> | <u>9,788,192</u> |
| Less accumulated depreciation for: | | | | |
| Improvements other than buildings | 3,205 | 1,187 | - | 4,392 |
| Buildings | 3,578,787 | 153,985 | - | 3,732,772 |
| Machinery and equipment | 1,152,262 | 85,078 | 36,455 | 1,200,885 |
| Total accumulated depreciation | <u>4,734,254</u> | <u>240,250</u> | <u>36,455</u> | <u>4,938,049</u> |
| Total capital assets being depreciated, net | <u>4,052,521</u> | <u>797,622</u> | <u>-</u> | <u>4,850,143</u> |
| Governmental activities capital assets, net | <u>\$ 4,208,983</u> | <u>797,622</u> | <u>-</u> | <u>5,006,605</u> |
| Business type activities: | | | | |
| Machinery and equipment | \$ 265,615 | - | - | 265,615 |
| Less accumulated depreciation | 241,264 | 5,713 | - | 246,977 |
| Business type activities capital assets, net | <u>\$ 24,351</u> | <u>(5,713)</u> | <u>-</u> | <u>18,638</u> |

Depreciation expense was charged by the District as follows:

| | |
|--|-------------------|
| Governmental activities: | |
| Instruction: | |
| Regular | 25,885 |
| Other | 5,203 |
| Support services: | |
| Instructional | 13,950 |
| Operation and maintenance of plant | 5,639 |
| Transportation | 34,401 |
| | <u>85,078</u> |
| Unallocated depreciation | 155,172 |
| Total governmental activities depreciation expense | <u>\$ 240,250</u> |
| Business type activities: | |
| Food services | <u>\$ 5,713</u> |

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2012 is as follows:

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year | Due Within One Year |
|---------------------------|---------------------------------|-----------|-----------|---------------------------|---------------------------|
| Governmental activities: | | | | | |
| Revenue bonds | \$ 18,750 | - | 18,750 | - | - |
| Early retirement | 432,407 | 144,000 | 154,648 | 421,759 | 127,428 |
| Separation agreement | 23,031 | - | 7,787 | 15,244 | 7,429 |
| Computer lease | 468,976 | - | 228,383 | 240,593 | 240,593 |
| Net OPEB liability | 68,143 | 34,553 | - | 102,696 | - |
| Total | \$ 1,011,307 | 178,553 | 409,568 | 780,292 | 375,450 |
| Business type activities: | | | | | |
| Net OPEB liability | \$ 3,271 | 1,659 | - | 4,930 | - |

Revenue Bonds Payable

During the year ended June 30, 2012, the District made the final payment on the revenue bonds dated April 13, 2005. For the current year principal of \$18,750 and interest of \$664 was paid on the bonds and the total statewide sales, services and use tax revenues were \$780,638.

Early Retirement

The District offers a voluntary early retirement plan to its full-time certified employees. Employees must be between the ages of fifty-five and sixty-four on or before June 30 of the year in which the employee wishes to retire. Certified employees must have completed fifteen years of service to the District while administrators need to complete ten years of service. Employees must complete an application which is subject to approval by the Board of Education.

Early retirement incentives are equal to no more than \$24,000 per employee and may be applied in the following manner:

Employees can continue with District sponsored health insurance benefits, with the District contributing no more than \$4,000 per year, subject to the requirements set by the District's insurance carrier, until the retiring employee becomes eligible for Medicare insurance coverage. Subsequent annual increases in the case of individual premiums are the responsibility of the employee. If desired, the employee may also purchase additional health, dental, and vision coverage under the current insurance policies of the District. If an employee is not covered by health insurance in their last year of employment, or if the employee fails to pay the balance of the insurance premium, then the benefit shall be distributed into the employee's designated 403(b) provider over a six-year period in equal payments each year. During the year ended June 30, 2012, the District paid early retirement benefits of \$154,648.

Separation Agreement

The District entered into a separation agreement with an employee that resigned during the year ended June 30, 2009. The District agreed to pay a fixed amount per month for single medical and dental insurance coverage for the next six years. Health and dental insurance will be paid until June 2015 at the rate of \$610.29 per month.

Computer Lease

Details of the District's June 30, 2012 computer lease indebtedness are as follows:

| Year Ending June 30, | Computer lease dated July 1, 2010 | | | |
|----------------------|-----------------------------------|------------|----------|---------|
| | Interest Rates | Principal | Interest | Total |
| 2013 | 1.65 % | \$ 240,593 | 11,764 | 252,357 |

(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 salary and the District is required to contribute 6.95% of annual salary. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$483,684, \$397,697, and \$381,533, respectively, equal to the required contributions for each year.

(7) Other Postemployment Benefits (OPEB)

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

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

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

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

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

| | |
|--|------------------------------|
| Annual required contribution | \$ 55,308 |
| Interest on net OPEB obligation | 1,785 |
| Adjustment to annual required contribution | <u>(4,688)</u> |
| Annual OPEB cost | 52,405 |
| Contributions made | <u>(16,193)</u> |
| Increase in net OPEB obligation | 36,212 |
| Net OPEB obligation beginning of year | <u>71,414</u> |
| Net OPEB obligation end of year | <u><u>\$ 107,626</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, 2012.

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, 2012 are summarized as follows:

| Year Ended June 30, | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---------------------------|---------------------|--|---------------------------|
| 2010 | 48,052 | 23.00% | 36,999 |
| 2011 | 48,519 | 29.07% | 71,414 |
| 2012 | 52,405 | 30.90% | 107,626 |

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$388,776, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$388,776. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$4,031,718 and the ratio of the UAAL to covered payroll was 9.64%. As of June 30, 2012, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The Schedule of Funding Progress,

presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

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

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

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

(8) Risk Management

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

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$372,785 for the year ended June 30, 2012 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Categorical Funding

The District's ending restricted balance for categorical funding at June 30, 2012 is comprised of the following programs:

| <u>Program</u> | <u>Amount</u> |
|---|--------------------------|
| Gifted and talented programs | \$ 15,768 |
| Weighted at-risk programs | 3,060 |
| Beginning teacher mentoring and induction program | 2,855 |
| Teacher salary supplement | 2,325 |
| Professional development for model core curriculum | 2,389 |
| Iowa early intervention block grant | 3,795 |
| Beginning administrator mentoring and induction program | 2,226 |
| Professional development | 15,077 |
| Home school assistance program | 4,480 |
| Returning dropouts and dropout prevention programs | <u>50,426</u> |
| Total | <u><u>\$ 102,401</u></u> |

PCM COMMUNITY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

PCM COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES
 AND CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2012

| | Governmental | Proprietary | Total Actual | Budgeted Amounts | | Final to |
|--|---------------------|----------------|-------------------|-------------------|-------------------|------------------|
| | Fund Types | Fund Type | | Original | Final | Actual |
| | Actual | Actual | | | | Variance |
| Revenues: | | | | | | |
| Local sources | \$ 5,744,072 | 354,562 | 6,098,634 | 5,796,205 | 5,796,205 | 302,429 |
| Intermediate sources | 800 | - | 800 | - | - | 800 |
| State sources | 5,951,886 | 4,499 | 5,956,385 | 5,966,864 | 5,966,864 | (10,479) |
| Federal sources | 492,280 | 187,180 | 679,460 | 425,000 | 425,000 | 254,460 |
| Total revenues | <u>12,189,038</u> | <u>546,241</u> | <u>12,735,279</u> | <u>12,188,069</u> | <u>12,188,069</u> | <u>547,210</u> |
| Expenditures/Expenses: | | | | | | |
| Instruction | 7,155,666 | - | 7,155,666 | 7,703,000 | 7,703,000 | 547,334 |
| Support services | 2,798,115 | - | 2,798,115 | 2,808,850 | 2,983,485 | 185,370 |
| Non-instructional programs | 4,778 | 524,475 | 529,253 | 660,000 | 660,000 | 130,747 |
| Other expenditures | 1,476,050 | - | 1,476,050 | 2,640,826 | 2,640,826 | 1,164,776 |
| Total expenditures/expenses | <u>11,434,609</u> | <u>524,475</u> | <u>11,959,084</u> | <u>13,812,676</u> | <u>13,987,311</u> | <u>2,028,227</u> |
| Excess(Deficiency)of revenues over(under)expenditures/expenses | 754,429 | 21,766 | 776,195 | (1,624,607) | (1,799,242) | 2,575,437 |
| Other financing sources, net | 14,525 | - | 14,525 | - | - | 14,525 |
| Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses | 768,954 | 21,766 | 790,720 | (1,624,607) | (1,799,242) | 2,589,962 |
| Balances beginning of year | 3,322,604 | 104,575 | 3,427,179 | 1,809,242 | 1,809,242 | 1,617,937 |
| Balances end of year | <u>\$ 4,091,558</u> | <u>126,341</u> | <u>4,217,899</u> | <u>184,635</u> | <u>10,000</u> | <u>4,207,899</u> |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PCM COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2012

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year ended June 30, 2012, the District adopted one budget amendment increasing budgeted expenditures by \$174,635.

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

| Year Ended June 30, | Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---------------------|--------------------------|-------------------------------|---------------------------------------|---------------------------|--------------------|---------------------|---|
| 2010 | July 1, 2009 | 0 | \$ 418,713 | 418,713 | 0.00% | 4,124,895 | 10.15% |
| 2011 | July 1, 2009 | 0 | 408,885 | 408,885 | 0.00% | 4,262,003 | 9.59% |
| 2012 | July 1, 2009 | 0 | 388,776 | 388,776 | 0.00% | 4,031,718 | 9.64% |

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SUPPLEMENTARY INFORMATION

PCM COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2012

| | Special Revenue | | |
|--|-------------------------|---------------------|-----------------------------|
| | Manage- ment Levy | Student Activity | Total Special Revenue |
| Assets | | | |
| Cash and pooled investments | \$ 135,202 | 136,686 | 271,888 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 3,133 | - | 3,133 |
| Succeeding year | 280,000 | - | 280,000 |
| Total assets | \$ 418,335 | 136,686 | 555,021 |
| Liabilities and Fund Balances | | | |
| Liabilities: | | | |
| Accounts payable | \$ - | 3,773 | 3,773 |
| Deferred revenue: | | | |
| Succeeding year property tax | 280,000 | - | 280,000 |
| Total liabilities | 280,000 | 3,773 | 283,773 |
| Fund balances: | | | |
| Restricted for: | | | |
| Management levy purposes | 138,335 | - | 138,335 |
| Student activities | - | 132,913 | 132,913 |
| Total fund balances | 138,335 | 132,913 | 271,248 |
| Total liabilities and fund balances | \$ 418,335 | 136,686 | 555,021 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PCM COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2012

| | Special Revenue | | | Debt Service | Total Other Nonmajor Governmental Funds |
|--|-------------------------|---------------------|--------------------------------------|-----------------|---|
| | Manage- ment Levy | Student Activity | Total Special Revenue Funds | | |
| Revenues: | | | | | |
| Local sources: | | | | | |
| Local tax | \$ 280,194 | - | 280,194 | - | 280,194 |
| Other | 14,268 | 334,268 | 348,536 | 66,987 | 415,523 |
| State sources | 136 | - | 136 | - | 136 |
| Total revenues | 294,598 | 334,268 | 628,866 | 66,987 | 695,853 |
| Expenditures: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 182,625 | - | 182,625 | - | 182,625 |
| Other | - | 315,750 | 315,750 | - | 315,750 |
| Support services: | | | | | |
| Student | 1,211 | - | 1,211 | - | 1,211 |
| Administration | 6,764 | - | 6,764 | - | 6,764 |
| Operation and maintenance of plant | 62,921 | - | 62,921 | - | 62,921 |
| Transportation | 47,115 | - | 47,115 | - | 47,115 |
| Non-instructional programs: | | | | | |
| Food service operations | 4,778 | - | 4,778 | - | 4,778 |
| Long-term debt: | | | | | |
| Principal | - | - | - | 247,133 | 247,133 |
| Interest and fiscal charges | - | - | - | 24,309 | 24,309 |
| Total expenditures | 305,414 | 315,750 | 621,164 | 271,442 | 892,606 |
| Excess(Deficiency) of revenues over(under) expenditures | (10,816) | 18,518 | 7,702 | (204,455) | (196,753) |
| Other financing sources: | | | | | |
| Transfer in | - | - | - | 204,455 | 204,455 |
| Excess(Deficiency) of revenues and other financing sources over(under) expenditures | (10,816) | 18,518 | 7,702 | - | 7,702 |
| Fund balances beginning of year | 149,151 | 114,395 | 263,546 | - | 263,546 |
| Fund balances end of year | \$ 138,335 | 132,913 | 271,248 | - | 271,248 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PCM COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECT ACCOUNTS
 JUNE 30, 2012

| | Capital Projects | | |
|--|---|--|------------------|
| | Statewide Sales, Services and Use Tax | Physical Plant and Equipment Levy | Total |
| Assets | | | |
| Cash and pooled investments | \$ 1,748,367 | 250,838 | 1,999,205 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | - | 2,801 | 2,801 |
| Succeeding year | - | 252,914 | 252,914 |
| Due from other governments | 245,556 | - | 245,556 |
| Total assets | \$ 1,993,923 | 506,553 | 2,500,476 |
| Liabilities and Fund Balances | | | |
| Liabilities: | | | |
| Deferred revenue: | | | |
| Succeeding year property tax | \$ - | 252,914 | 252,914 |
| Total liabilities | - | 252,914 | 252,914 |
| Fund balances: | | | |
| Restricted for: | | | |
| School infrastructure | 1,993,923 | - | 1,993,923 |
| Physical plant and equipment | - | 253,639 | 253,639 |
| Total fund balances | 1,993,923 | 253,639 | 2,247,562 |
| Total liabilities and fund balances | \$ 1,993,923 | 506,553 | 2,500,476 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

PCM COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 CAPITAL PROJECT ACCOUNTS
 YEAR ENDED JUNE 30, 2012

| | Capital Projects | | |
|---|---|--|------------------|
| | Statewide Sales, Services and Use Tax | Physical Plant and Equipment Levy | Total |
| Revenues: | | | |
| Local sources: | | | |
| Local tax | \$ 780,638 | 239,562 | 1,020,200 |
| Other | 55,119 | 967 | 56,086 |
| State sources | - | 120 | 120 |
| Total revenues | <u>835,757</u> | <u>240,649</u> | <u>1,076,406</u> |
| Expenditures: | | | |
| Current: | | | |
| Support services: | | | |
| Transportation | 7,533 | - | 7,533 |
| Capital outlay | 828,376 | 3,447 | 831,823 |
| Total expenditures | <u>835,909</u> | <u>3,447</u> | <u>839,356</u> |
| Excess(Deficiency) of revenues over(under) expenditures | (152) | 237,202 | 237,050 |
| Other financing uses: | | | |
| Transfer out | (19,087) | (185,368) | (204,455) |
| Excess(Deficiency) of revenues and other financing uses over(under) expenditures | (19,239) | 51,834 | 32,595 |
| Fund balances beginning of year | <u>2,013,162</u> | <u>201,805</u> | <u>2,214,967</u> |
| Fund balances end of year | <u>\$ 1,993,923</u> | <u>253,639</u> | <u>2,247,562</u> |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PCM COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2012

| Account | Balance Beginning of Year | Revenues | Expendi- tures | Balance End of Year |
|------------------------|---------------------------------|----------|-------------------|---------------------------|
| Art club | \$ 1,294 | 2 | 9 | 1,287 |
| Athletics | 41,024 | 199,179 | 185,092 | 55,111 |
| Band | 3,279 | 808 | 2,155 | 1,932 |
| Cheerleaders | 1,121 | 11,748 | 7,990 | 4,879 |
| 8th graders | 134 | - | - | 134 |
| Class of 2011 | 26 | - | 26 | - |
| Class of 2012 | 1,168 | - | 1,168 | - |
| Class of 2013 | 2,335 | 3,748 | 4,132 | 1,951 |
| Class of 2014 | 539 | 3,695 | 2,400 | 1,834 |
| Class of 2015 | - | 2,853 | 1,307 | 1,546 |
| Class of 2016 | - | 8,250 | 8,230 | 20 |
| Drama | 1,925 | 1,551 | 1,345 | 2,131 |
| Mustang club | 8,552 | 22,106 | 19,655 | 11,003 |
| FFA | 9,595 | 36,266 | 33,575 | 12,286 |
| Shop club | 272 | - | 2 | 270 |
| Foods/clothing club | 942 | 197 | 74 | 1,065 |
| Football club | 433 | 3,942 | 4,374 | 1 |
| Jazz creation | 4,452 | 15,086 | 19,124 | 414 |
| Journalism | - | 367 | 304 | 63 |
| Horticulture | 50 | - | - | 50 |
| National honor society | 367 | 1,726 | 1,443 | 650 |
| Pop fund | 1,763 | 2 | 72 | 1,693 |
| Science club | 297 | - | 120 | 177 |
| Spanish club | 904 | 1 | 6 | 899 |
| Speech club | 450 | - | 147 | 303 |
| Spirit club | 340 | - | - | 340 |
| Student government | 1,469 | 2,688 | 2,560 | 1,597 |
| Thespians | 449 | 123 | 228 | 344 |
| Vocal | 2,452 | 5,493 | 5,063 | 2,882 |
| Photography club | 41 | - | - | 41 |
| Student council | 12,958 | - | 1,608 | 11,350 |
| Playground | 3,071 | 4 | 20 | 3,055 |
| Reading club | 5,524 | 118 | 542 | 5,100 |
| JEL | - | 33 | - | 33 |
| Just say no club | 1,451 | - | 5 | 1,446 |
| Preschool | 307 | - | 2 | 305 |
| Yearbook | 5,411 | 8,502 | 7,192 | 6,721 |
| Conference activities | - | 5,780 | 5,780 | - |
| Total | \$ 114,395 | 334,268 | 315,750 | 132,913 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

| | Modified Accrual Basis | | | | | | | | |
|------------------------------------|------------------------|-------------------|-------------------|-------------------|------------------|-------------------|------------------|------------------|------------------|
| | Years Ended June 30, | | | | | | | | |
| | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
| Revenues: | | | | | | | | | |
| Local sources: | | | | | | | | | |
| Local tax | \$ 4,700,871 | 4,548,469 | 3,928,749 | 3,994,689 | 3,739,843 | 3,676,037 | 3,478,621 | 3,393,896 | 3,195,617 |
| Tuition | 467,182 | 488,837 | 392,249 | 376,733 | 365,079 | 336,600 | 317,811 | 293,058 | 264,258 |
| Other | 576,019 | 447,308 | 520,709 | 430,644 | 425,103 | 389,840 | 470,271 | 401,957 | 525,001 |
| Intermediate sources | 800 | - | - | - | - | 10,634 | - | - | - |
| State sources | 5,951,886 | 5,585,236 | 4,804,690 | 4,956,678 | 4,982,082 | 4,760,157 | 4,455,610 | 4,331,308 | 4,025,365 |
| Federal sources | 492,280 | 472,481 | 843,633 | 357,629 | 258,906 | 239,503 | 195,604 | 296,385 | 179,153 |
| Total | \$ 12,189,038 | 11,542,331 | 10,490,030 | 10,116,373 | 9,771,013 | 9,412,771 | 8,917,917 | 8,716,604 | 8,189,394 |
| Expenditures: | | | | | | | | | |
| Instruction: | | | | | | | | | |
| Regular | \$ 4,130,366 | 3,999,659 | 5,167,980 | 4,026,096 | 3,815,202 | 3,782,796 | 3,711,392 | 3,588,938 | 3,336,553 |
| Special | 1,607,393 | 1,490,293 | 1,903,286 | 1,803,245 | 1,234,540 | 1,213,005 | 1,377,275 | 1,309,659 | 1,198,740 |
| Other | 1,417,907 | 1,423,195 | 693,311 | 644,384 | 882,458 | 961,120 | 752,158 | 782,833 | 916,466 |
| Support services: | | | | | | | | | |
| Student | 263,992 | 150,049 | 94,008 | 84,903 | 165,106 | 238,467 | 214,986 | 215,362 | 197,528 |
| Instructional | 428,224 | 330,514 | 190,918 | 281,959 | 267,269 | 308,831 | 331,870 | 245,061 | 243,778 |
| Administration | 952,924 | 855,980 | 860,761 | 898,768 | 863,033 | 803,531 | 768,393 | 647,847 | 625,238 |
| Operation and maintenance of plant | 686,569 | 678,803 | 648,708 | 663,389 | 703,544 | 683,172 | 692,804 | 646,719 | 673,256 |
| Transportation | 466,406 | 484,984 | 475,166 | 540,208 | 479,575 | 496,878 | 423,146 | 445,373 | 412,863 |
| Central | - | - | - | - | - | - | - | - | 5,798 |
| Non-instructional programs: | | | | | | | | | |
| Food service operations | 4,778 | 3,675 | 4,248 | 3,523 | 3,511 | 3,246 | 3,320 | 2,209 | 1,701 |
| Capital outlay | 831,823 | 277,674 | 199,435 | 271,197 | 158,730 | 929,113 | 422,765 | 168,576 | 33,113 |
| Long term debt: | | | | | | | | | |
| Principal | 247,133 | 248,044 | 635,000 | 210,000 | 205,000 | 259,600 | 282,400 | 243,000 | 275,000 |
| Interest and fiscal charges | 24,309 | 37,561 | 20,607 | 39,985 | 49,019 | 57,099 | 73,623 | 78,128 | 90,983 |
| Other expenditures: | | | | | | | | | |
| AEA flow-through | 372,785 | 401,539 | 389,352 | 345,265 | 320,728 | 305,537 | 281,251 | 275,226 | 268,445 |
| Total | \$ 11,434,609 | 10,381,970 | 11,282,780 | 9,812,922 | 9,147,715 | 10,042,395 | 9,335,383 | 8,648,931 | 8,279,462 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PCM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012

| Grantor/Program | CFDA Number | Grant Number | Expendi- tures |
|---|----------------|-----------------|-------------------|
| Indirect: | | | |
| U.S. Department of Agriculture: | | | |
| Iowa Department of Education: | | | |
| School Nutrition Cluster Programs: | | | |
| School Breakfast Program | 10.553 | FY12 | 17,899 |
| National School Lunch Program | 10.555 | FY12 | 168,272 * |
| Special Milk Program for Children | 10.556 | FY12 | 1,009 |
| | | | <u>187,180</u> |
| U.S. Department of Education: | | | |
| Iowa Department of Education: | | | |
| Title I, Part A Cluster: | | | |
| Title I Grants to Local Educational Agencies | 84.010 | FY12 | 87,809 |
| Career and Technical Education - Basic Grants to States | 84.048 | FY12 | 5,638 |
| Title IIA - Improving Teacher Quality State Grants | 84.367 | FY12 | 26,382 |
| Grants for State Assessments and Related Activities | 84.369 | FY11 | 6,650 |
| Grants for State Assessments and Related Activities | 84.369 | FY12 | 6,721 |
| | | | <u>13,371</u> |
| Education Job Fund | 84.410 | FY11 | 134,115 |
| Education Job Fund | 84.410 | FY12 | 3,008 |
| | | | <u>137,123</u> |
| Area Education Agency: | | | |
| Special Education Grants to States (Part B) | 84.027 | FY12 | 51,323 |
| Total | | | <u>\$ 508,826</u> |

* - Includes \$34,041 of non-cash awards.

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

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

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of PCM Community School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 7, 2013. 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

The management of PCM Community School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered PCM Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PCM Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PCM Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be a material weakness and other deficiencies we consider to be significant deficiencies.

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 misstatement on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-12 to be material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-B-12 to be significant deficiency.

Members American Institute & Iowa Society of Certified Public Accountants

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PCM Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of PCM Community School District and other parties to whom PCM Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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



NOLTE, CORNMAN & JOHNSON, P.C.

February 7, 2013

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 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
PCM Community School District:

Compliance

We have audited the compliance of PCM Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of PCM Community School District's major federal programs for the year ended June 30, 2012. PCM Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of PCM Community School District's management. Our responsibility is to express an opinion on PCM Community School District's compliance based on our audit.

We conducted our audit 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 PCM Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on PCM Community School District's compliance with those requirements.

In our opinion, PCM Community School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect to each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

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

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-12 to be a material weakness.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of PCM Community School District and other parties to whom PCM Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



NOLTE, CORNMAN & JOHNSON, P.C.

February 7, 2013

PCM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) A significant deficiency and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit findings which was required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered Programs:
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.556 - Special Milk Program for Children
 - Individual Program:
 - CFDA Number 84.410 - Education Jobs Fund
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) PCM Community School District did not qualify as a low-risk auditee.

PCM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-12 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that cash receipts and bank deposits were performed by one employee while the posting of the cash receipts to the cash receipts journal and bank reconciliations were done by another, however, the possibility remains that material misstatements would not be prevented or detected and corrected on a timely basis.

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

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

Conclusion - Response accepted.

II-B-12 Scholarship Awards - We noted during our audit that scholarship checks were being written from the Student Government account in the Student Activity Fund. It appeared that the money for the scholarship award was being taken from excess funds in the account.

Recommendation - The Private Purpose Trust Fund is more appropriate for scholarship revenues and expenditures. If the intention is awarding scholarships each year, that group needs to fundraise specifically for that purpose each year. The sponsor or governing body of the student government cannot arbitrarily decide to award scholarships from the profits of fundraisers or left over funds in the account.

Response - The District has put procedures in place to ensure all scholarships are now paid out of the Private Purpose Trust Fund.

Conclusion - Response accepted.

PCM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program
CFDA Number 10.556: Special Milk Program for Children
Federal Award Year: 2012
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.041: Education Jobs Fund
Federal Award Year: 2011 & 2012
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-12 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that cash receipts and bank deposits were performed by one employee while the posting of the cash receipts to the cash receipts journal and bank reconciliations were done by another, however, the possibility remains that material misstatements would not be prevented or detected and corrected on a timely basis.

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

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

Conclusion - Response accepted.

PCM COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2012

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-12 Certified Budget - District expenditures for the year ended June 30, 2012 did not exceed the certified amounts in the functional areas.

IV-B-12 Questionable Disbursements - We noted during our audit that the District purchased clothing for athletic coaches from the Student Activity Fund.

Recommendation - Article III, Section 31 of the Constitution of the State of Iowa requires that public funds may only be spent for the public benefit. Since Student Activity Funds are “public funds” the District must determine the propriety and document the public purpose and public benefit to be derived. The District should establish a policy to preclude purchases of personal clothing from public funds, and/or define the exceptions, if any, including the requirement for Board consideration, documentation of public purpose and approval.

The District may wish to refrain from allowing public funds to be used to purchase personal items of clothing under any circumstances since this establishes a precedent which may be difficult to justify and/or administer fairly and consistently among employees and student groups.

A better alternative may be to ask the Booster Club or other affiliated organization to provide clothing such as team jackets for coaches, to District employees in lieu of using public funds.

Response - The District will refrain from using public funds to purchase personal items of clothing in the future. The District will ensure procedures are in place to avoid this in the future.

Conclusion - Response accepted.

IV-C-12 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-12 Business Transactions - Business transactions between the District and District officials were noted as follows:

| Name, Title and Business Connection | Transaction Description | Amount |
|---|----------------------------|----------|
| Matt Teeter, Teacher Owner of M&K Mowing | Grounds upkeep | \$19,200 |

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

IV-E-12 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-12 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-G-12 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- IV-H-12 Supplemental Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- IV-I-12 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-12 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-12 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
- IV-L-12 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. 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, 2012, the District reported the following information regarding the statewide sales, services, and use tax revenue in the District's CAR:

| | | | |
|------------------------------------|----|---------|------------------|
| Beginning balance | | \$ | 2,013,162 |
| Revenues/transfers in: | | | |
| Sales tax revenues | \$ | 780,638 | |
| Other local revenues | | 55,119 | 835,757 |
| | | | <u>2,848,919</u> |
| Expenditures/transfers out: | | | |
| School infrastructure construction | | 439,018 | |
| Equipment | | 115,902 | |
| Other | | 280,989 | |
| Transfer to other funds: | | | |
| Debt service fund | | 19,087 | 854,996 |
| | | | <u>854,996</u> |
| Ending balance | | \$ | <u>1,993,923</u> |

For the year ended June 30, 2012, 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-12Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliations of the General, Activity and Nutrition Funds which have been outstanding for over a year.

Recommendation - Per Chapter 556.1(10) and 556.11 of the Code of Iowa, the District is required to report unclaimed property to the State Treasurer annually before November 1st. The District should research the outstanding checks to determine if they should be reissued, voided or submitted to the Treasurer of Iowa as unclaimed property.

Response - The District has reviewed outstanding checks and has filed a timely unclaimed property report with the State Treasurer as prescribed by the Iowa Code. The District understands that the audit field work takes place prior to the unclaimed property report due date.

Conclusion - Response accepted.