

PEKIN COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2014

## Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
Management's Discussion and Analysis		7-16
<b>Basic Financial Statements:</b>	<u>Exhibit</u>	
<i>Government-wide Financial Statements:</i>		
Statement of Net Position	A	18
Statement of Activities	B	19
<i>Governmental Fund Financial Statements:</i>		
Balance Sheet	C	20
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	D	21
Statement of Revenues, Expenditures and Changes in Fund Balances	E	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	23
<i>Proprietary Fund Financial Statements:</i>		
Statement of Net Position	G	24
Statement of Revenues, Expenditures and Changes in Fund Net Position	H	25
Statement of Cash Flows	I	26
Notes to Financial Statements		27-37
<b>Required Supplementary Information:</b>		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		40
Notes to Required Supplementary Information - Budgetary Reporting		41
Schedule of Funding Progress for the Retiree Health Plan		42
<b>Supplementary Information:</b>	<u>Schedule</u>	
<i>Nonmajor Governmental Funds:</i>		
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	1	44
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	2	45
<i>Capital Projects Accounts:</i>		
Combining Balance Sheet	3	46
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	4	47
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	5	48
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		49-50
Schedule of Findings		51-55

**Pekin Community School District**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
<b>(Before September 2013 Election)</b>		
Steve Copeland	President	2015
Greg Millikin	Vice-president	2015
Jennifer Coleman	Board Member	2015
Mike Davis	Board Member	2015
Lynn Winn	Board Member	2013
Mark Wittrock	Board Member	2013
David Hollingsworth	Board Member	2013
<b>(After September 2013 Election)</b>		
Steve Copeland	President	2015
Greg Millikin	Vice-president	2015
Jennifer Coleman	Board Member	2015
Mike Davis	Board Member	2015
Mark Wittrock	Board Member	2017
Heidi Baker	Board Member	2017
Jared Greiner	Board Member	2017
<b>School Officials</b>		
Dennis Phelps	Superintendent	2014
Connie Linney	District Secretary/Treasurer	2014
Richard Gaumer	Attorney	2014
Gruhn Law Firm	Attorney	2014
Ray & Associates	Attorney	2014

**PEKIN COMMUNITY SCHOOL DISTRICT**

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

**INDEPENDENT AUDITOR'S REPORT**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pekin Community School District, Packwood, Iowa, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pekin Community School District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

## **Other Matters**

### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 40 through 42 be presented to supplement the basic 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 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pekin Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 basic financial statements or to the basic 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.

## **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated March 23, 2015 on our consideration of Pekin Community School District's internal control over financial reporting and on 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 in considering Pekin Community School District's internal control over financial reporting and compliance.



NOLTE, CORNMAN & JOHNSON, P.C.

March 23, 2015  
Newton, Iowa

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

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Pekin Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2014 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$6,050,711 in fiscal year 2013 to \$6,235,367 in fiscal year 2014, while General Fund expenditures increased from \$6,259,675 in fiscal year 2013 to \$6,828,628 in fiscal year 2014. This resulted in a decrease in the District's General Fund balance from \$2,705,181 at June 30, 2013 to \$2,111,920 at June 30, 2014, a 21.93% decrease from the prior year.
- The increase in General Fund revenues was attributable to increases in local tax and tuition revenues received in fiscal year 2014. The increase in expenditures was due to increased expenditures for the instruction and support services functional areas.

### **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 Position and a Statement of Activities. These provide information about the activities of Pekin Community School District as a whole and present an overall view of the District's finances.

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

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

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

Supplementary Information provides detailed information about the non-major governmental funds.

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

**Figure A-1**  
***Pekin Community School District Annual Financial Report***

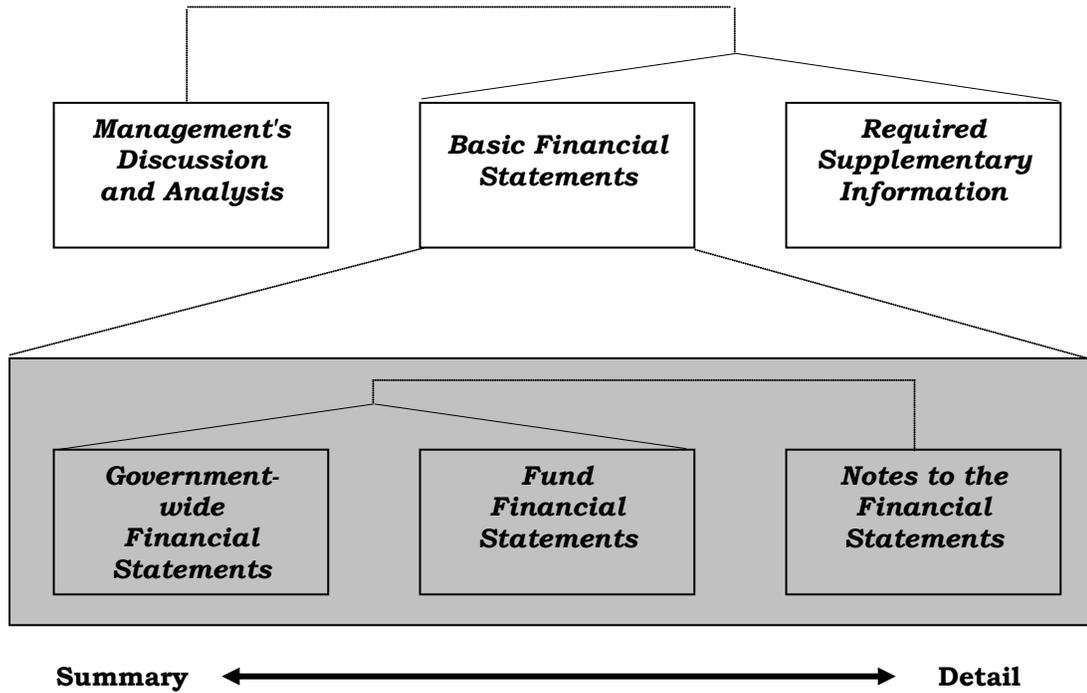


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire District	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 day care
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Revenues, Expenses, and Changes in Fund Net Position</li> <li>• Statement of Cash Flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

## **REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES**

### **Government-wide Financial Statements**

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. 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 position and how it has changed. Net position is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position is an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

### **Fund Financial Statements**

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

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

The District has two kinds of funds:

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

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

The required financial statements for the governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances.

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

The required financial statements for the proprietary funds include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Fund Net Position, and a Statement of Cash Flows.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net position for the year ended June 30, 2014 compared to June 30, 2013.

Figure A-3							
Condensed Statement of Net Position							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
Current and other assets	\$ 6,345,012	7,143,508	113,035	103,676	6,458,047	7,247,184	-10.89%
Capital assets	4,500,946	4,165,109	647,536	477,333	5,148,482	4,642,442	10.90%
Total assets	10,845,958	11,308,617	760,571	581,009	11,606,529	11,889,626	-2.38%
Long-term liabilities	326,805	405,799	6,431	4,761	333,236	410,560	-18.83%
Other liabilities	64,145	22,055	14,634	15,868	78,779	37,923	107.73%
Total liabilities	390,950	427,854	21,065	20,629	412,015	448,483	-8.13%
Deferred inflows of resources	2,674,829	2,711,234	-	-	2,674,829	2,711,234	-1.34%
Net position:							
Net investment in capital assets	4,500,946	4,165,109	647,536	477,333	5,148,482	4,642,442	10.90%
Restricted	1,483,253	1,780,128	-	-	1,483,253	1,780,128	-16.68%
Unrestricted	1,795,980	2,224,292	91,970	83,047	1,887,950	2,307,339	-18.18%
Total net position	\$ 7,780,179	8,169,529	739,506	560,380	8,519,685	8,729,909	-2.41%

The District's combined net position decreased by 2.41%, or \$210,224, from the prior year. The largest portion of the District's net position is invested in capital assets (e.g., land, infrastructure, intangibles, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position decreased 16.68%, or \$296,875. The decrease in restricted net position was primarily due to the decrease in fund balance of the Capital Projects: Statewide Sales, Services, and Use Tax Fund.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased 18.18%, or \$419,389. This decrease in unrestricted net position was primary due to the decrease in fund balance of the General Fund.

Figure A-4 shows the changes in net position for the year ended June 30, 2014 compared to the year ended June 30, 2013.

	Figure A-4						
	Changes in Net Position						
	Governmental Activities		Business Type Activities		Total District		Total Change
2014	2013	2014	2013	2014	2013	2013-14	
Revenues:							
Program revenues:							
Charges for service	\$ 833,391	709,921	367,473	346,688	1,200,864	1,056,609	13.65%
Operating grants, contributions and restricted interest	596,087	547,883	168,342	171,516	764,429	719,399	6.26%
Capital grants, contributions and restricted interest	-	2,560	-	-	-	2,560	-100.00%
General revenues:							
Property tax	2,639,054	2,565,547	-	-	2,639,054	2,565,547	2.87%
Income surtax	239,066	195,367	-	-	239,066	195,367	22.37%
Statewide sales, services and use tax	547,830	545,526	-	-	547,830	545,526	0.42%
Unrestricted state grants	2,852,715	2,908,017	-	-	2,852,715	2,908,017	-1.90%
Unrestricted interest revenue	35,100	40,606	3	3	35,103	40,609	-13.56%
Other general revenue	65,438	48,260	14,727	10,968	80,165	59,228	35.35%
Total revenues	7,808,681	7,563,687	550,545	529,175	8,359,226	8,092,862	3.29%
Program expenses:							
Instruction	5,299,057	4,584,515	-	-	5,299,057	4,584,515	15.59%
Support services	2,203,533	2,076,511	-	-	2,203,533	2,076,511	6.12%
Non-instructional programs	2,634	3,903	582,122	539,976	584,756	543,879	7.52%
Other expenditures	482,104	428,715	-	-	482,104	428,715	12.45%
Total expenses	7,987,328	7,093,644	582,122	539,976	8,569,450	7,633,620	12.26%
Excess(Deficiency) of revenues over(under) expenditures	(178,647)	470,043	(31,577)	(10,801)	(210,224)	459,242	-145.78%
Transfers	(210,703)	-	210,703	-	-	-	0.00%
Change in net position	(389,350)	470,043	179,126	(10,801)	(210,224)	459,242	-145.78%
Net position beginning of year	8,169,529	7,699,486	560,380	571,181	8,729,909	8,270,667	5.55%
Net position end of year	\$ 7,780,179	8,169,529	739,506	560,380	8,519,685	8,729,909	-2.41%

In fiscal year 2014, property tax, income surtax, statewide sales, services, and use tax, and unrestricted state grants accounted for 80.41% of the revenues from governmental activities, while charges for service, and operating grants and contributions accounted for 97.32% of the revenues from business type activities.

The District's total revenues were approximately \$8.36 million, of which approximately \$7.81 was from governmental activities and approximately \$0.55 was from business type activities.

As shown in Figure A-4, the District as a whole experienced a 3.29% increase in revenues and a 12.26% increase in expenses, as compared to the prior year. Revenues for fiscal year 2014 increased as a result of the District's increased charges for service and property tax revenues as compared to the prior year. Expenses increased due to increased negotiated salaries and benefits paid to employees.

### Governmental Activities

Revenues for governmental activities were \$7,808,681 and expenses were \$7,987,328 for the year ended June 30, 2014.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services, non-instructional programs and other expenses, for the year ended June 30, 2014 compared to the year ended June 30, 2013.

	Total Cost of Services			Net Cost of Services		
	2014	2013	Change 2013-14	2014	2013	Change 2013-14
Instruction	\$ 5,299,057	4,584,515	15.59%	4,173,920	3,578,082	16.65%
Support services	2,203,533	2,076,511	6.12%	2,153,588	2,069,551	4.06%
Non-instructional programs	2,634	3,903	-32.51%	2,634	3,903	-32.51%
Other expenses	482,104	428,715	12.45%	227,708	181,744	25.29%
<b>Totals</b>	<b>\$ 7,987,328</b>	<b>7,093,644</b>	<b>12.60%</b>	<b>6,557,850</b>	<b>5,833,280</b>	<b>12.42%</b>

For the year ended June 30, 2014:

- The cost financed by users of the District's programs was \$833,391.
- Federal and state governments along with contributions from local sources subsidized certain programs with grants and contributions totaling \$596,087.
- The net cost of governmental activities was financed with \$2,639,054 in property tax, \$239,066 in income surtax, \$547,830 in statewide sales, services and use tax, \$2,852,715 in unrestricted state grants, \$35,100 in interest income, and \$65,438 in other general revenues.

### Business Type Activities

Revenues for the District's business type activities the year ended June 30, 2014 were \$550,545 and expenses totaled \$582,122. The District's business type activities include the School Nutrition Fund and the Day Care Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, investment income, and other general revenues.

### INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$3,407,510, below last year's ending combined fund balances of \$4,213,860. The primary reason for the decrease in combined fund balances in fiscal year 2014 is the decrease in the General Fund balance.

### **Governmental Fund Highlights**

- The District's decreasing General Fund financial position is the product of many factors. The General Fund balance decreased from \$2,705,181 at June 30, 2013 to \$2,111,920 at June 30, 2014. Total revenues increased from the prior year primarily due to increases in local tax and tuition sources while total expenditures also increased due primarily to increased negotiated salaries and benefits of District employees. Total expenditures exceeded total revenues ensuring a decrease in ending fund balance.
- The Management Fund balance increased from \$317,459 at June 30, 2013 to \$491,703 at June 30, 2014. This increase in fund balance is primarily due to an increase in local tax source revenues received and a decrease in instructional expenditures incurred as compared to the prior year.
- The Capital Projects Fund balance decreased from \$1,099,347 at June 30, 2013 to \$704,568 at June 30, 2014. The primary reason for this decrease in fund balance is due to increased capital outlay expenditures incurred as part of District construction projects.

### **Proprietary Fund Highlights**

The Proprietary Funds combined net position increased from \$560,380 at June 30, 2013 to \$739,506 at June 30, 2014, representing an increase of 31.97%.

The School Nutrition Fund net position increased from \$153,818 at June 30, 2013 to \$330,926 at June 30, 2014, an increase of 115.14%. The primary reason for this increase in ending net position is due to capital contributions received from the Capital Projects: Statewide, Sales, Services and Use Tax Fund as part of the District's kitchen remodel project.

The Day Care Fund net position increased from \$406,562 at June 30, 2013 to \$408,580 at June 30, 2014, an increase of less than 1%. Total revenues increased primarily due to increased charges for service revenues received and total expenditures also increased primarily due to increase in salaries and benefits paid to Day Care employees. Total revenues outpaced total expenditures ensuring an increase in ending net position.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, Pekin Community School District amended its budget one time to reflect additional expenditures associated with the hiring of a new curriculum director during the year.

The District's revenues were \$445,341 more than budgeted revenues, a variance of 5.63%. The most significant variance resulted from the District receiving more in state sources than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional programs functional area.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2014, the District had invested \$5,148,482, 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 10.90% from the prior year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$441,398.

The original cost of the District's capital assets was \$10,742,466. Governmental activities account for \$9,832,559 with the remainder of \$909,907 in the District's business type activities.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$3,794,310 at June 30, 2014, compared to \$3,223,693 reported at June 30, 2013. This increase resulted from a kitchen remodeling project at the District's elementary school which was completed during the year and capitalized as part of the District's capital asset listing.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
Land	\$ 236,245	236,245	-	-	236,245	236,245	0.00%
Construction in progress	-	119,816	-	-	-	119,816	-100.00%
Buildings	3,442,780	2,862,260	351,530	361,433	3,794,310	3,223,693	15.04%
Land improvements	323,014	350,496	-	-	323,014	350,496	-8.51%
Machinery and equipment	498,907	596,292	296,006	115,900	794,913	712,192	10.41%
Total	\$ 4,500,946	4,165,109	647,536	477,333	5,148,482	4,642,442	10.90%

### Long-Term Debt

At June 30, 2014, the District had \$333,236 in other long-term debt outstanding. This represents a decrease of 18.83% from last year. (See Figure A-7) Additional detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

At June 30, 2014, the District had termination benefits payable of \$222,164. \$1,800 is payable from the District's General Fund, and the remaining \$220,364 is payable from the Management Levy Fund.

At June 30, 2014, the District had a net OPEB liability of \$111,072. \$104,641 is attributable to the District's governmental activities, and the remaining \$6,431 is attributable to the District's business type activities.

Figure A-7  
Outstanding Long-Term Obligations

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
Computer lease	\$ -	144,999	-	-	-	144,999	-100.00%
Termination benefits	222,164	183,338	-	-	222,164	183,338	21.18%
Net OPEB obligation	104,641	77,462	6,431	4,761	111,072	82,223	35.09%
<b>Total</b>	<b>\$ 326,805</b>	<b>405,799</b>	<b>6,431</b>	<b>4,761</b>	<b>333,236</b>	<b>410,560</b>	<b>-18.83%</b>

## 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:

- Low allowable growth over the past several years along with the uncertainty of what allowable growth will be has the largest impact on the District's financial future. Declining enrollment also has a great impact on the District's spending authority.
- Steady increases in salaries and benefits has a major influence on the District's finances, requiring the District to cut staff in order to maintain a relative sound unspent authorized budget.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

PEKIN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2014

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 3,038,757	81,703	3,120,460
Receivables:			
Property tax:			
Delinquent	33,903	-	33,903
Succeeding year	2,674,829	-	2,674,829
Income surtax	198,528	-	198,528
Accounts	6,921	15,941	22,862
Due from other governments	392,074	518	392,592
Inventories	-	14,873	14,873
Capital assets, net of accumulated depreciation	4,500,946	647,536	5,148,482
<b>Total assets</b>	<b>10,845,958</b>	<b>760,571</b>	<b>11,606,529</b>
<b>Liabilities</b>			
Accounts payable	55,850	-	55,850
Salaries and benefits payable	8,295	9,196	17,491
Unearned revenue	-	5,438	5,438
Long-term liabilities:			
Portion due within one year:			
Termination benefits payable	84,964	-	84,964
Portion due after one year:			
Termination benefits payable	137,200	-	137,200
Net OPEB liability	104,641	6,431	111,072
<b>Total liabilities</b>	<b>390,950</b>	<b>21,065</b>	<b>412,015</b>
<b>Deferred inflows of resources</b>			
Unavailable property tax revenue	2,674,829	-	2,674,829
<b>Net position</b>			
Net investment in capital assets	4,500,946	647,536	5,148,482
Restricted for:			
Categorical funding	406,183	-	406,183
Management levy purposes	271,339	-	271,339
Student activities	101,163	-	101,163
School infrastructure	494,571	-	494,571
Physical plant and equipment	209,997	-	209,997
Unrestricted	1,795,980	91,970	1,887,950
<b>Total net position</b>	<b>\$ 7,780,179</b>	<b>739,506</b>	<b>8,519,685</b>

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2014

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
<b>Functions/Programs:</b>						
Governmental activities:						
Instruction:						
Regular	\$ 3,263,385	408,080	38,466	(2,816,839)	-	(2,816,839)
Special	755,843	25,618	28,825	(701,400)	-	(701,400)
Other	1,279,829	353,422	270,726	(655,681)	-	(655,681)
	<u>5,299,057</u>	<u>787,120</u>	<u>338,017</u>	<u>(4,173,920)</u>	<u>-</u>	<u>(4,173,920)</u>
Support services:						
Student	130,022	-	-	(130,022)	-	(130,022)
Instructional staff	285,016	46,271	3,674	(235,071)	-	(235,071)
Administration	683,026	-	-	(683,026)	-	(683,026)
Operation and maintenance of plant	456,586	-	-	(456,586)	-	(456,586)
Transportation	648,883	-	-	(648,883)	-	(648,883)
	<u>2,203,533</u>	<u>46,271</u>	<u>3,674</u>	<u>(2,153,588)</u>	<u>-</u>	<u>(2,153,588)</u>
Non-instructional programs:						
Food service operations	2,634	-	-	(2,634)	-	(2,634)
Long-term debt interest	256	-	-	(256)	-	(256)
Other expenditures:						
AEA flowthrough	254,396	-	254,396	-	-	-
Depreciation(unallocated)*	227,452	-	-	(227,452)	-	(227,452)
	<u>481,848</u>	<u>-</u>	<u>254,396</u>	<u>(227,452)</u>	<u>-</u>	<u>(227,708)</u>
Total governmental activities	<u>7,987,328</u>	<u>833,391</u>	<u>596,087</u>	<u>(6,557,850)</u>	<u>-</u>	<u>(6,557,850)</u>
Business type activities:						
Non-instructional programs:						
Food service operations	341,804	139,745	168,342	-	(33,717)	(33,717)
Other enterprise operations	240,318	227,728	-	-	(12,590)	(12,590)
Total business type activities	<u>582,122</u>	<u>367,473</u>	<u>168,342</u>	<u>-</u>	<u>(46,307)</u>	<u>(46,307)</u>
Total	<u>\$ 8,569,450</u>	<u>1,200,864</u>	<u>764,429</u>	<u>(6,557,850)</u>	<u>(46,307)</u>	<u>(6,604,157)</u>
<b>General Revenues and transfers:</b>						
Property tax levied for:						
General purposes				\$ 2,482,145	-	2,482,145
Capital outlay				156,909	-	156,909
Income surtax				239,066	-	239,066
Statewide sales, services and use tax				547,830	-	547,830
Unrestricted state grants				2,852,715	-	2,852,715
Unrestricted investment earnings				35,100	3	35,103
Other				65,438	14,727	80,165
Transfers				(210,703)	210,703	-
Total general revenues and transfers				<u>6,168,500</u>	<u>225,433</u>	<u>6,393,933</u>
Change in net position				(389,350)	179,126	(210,224)
Net position beginning of year				8,169,529	560,380	8,729,909
Net position end of year				<u>\$ 7,780,179</u>	<u>739,506</u>	<u>8,519,685</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2014

	General	Management Levy	Capital Projects	Nonmajor Special Revenue: Student Activity	Total
<b>Assets</b>					
Cash and pooled investments	\$ 1,993,588	486,559	459,291	99,319	3,038,757
Receivables:					
Property tax:					
Delinquent	26,743	5,144	2,016	-	33,903
Succeeding year	2,035,437	500,000	139,392	-	2,674,829
Income surtax	124,080	-	74,448	-	198,528
Accounts	6,562	-	359	-	6,921
Due from other governments	149,172	-	242,902	-	392,074
<b>Total assets</b>	<b>\$ 4,335,582</b>	<b>991,703</b>	<b>918,408</b>	<b>99,319</b>	<b>6,345,012</b>
<b>Liabilities, deferred inflows of resources and fund balances</b>					
Liabilities:					
Accounts payable	\$ 55,850	-	-	-	55,850
Salaries and benefits payable	8,295	-	-	-	8,295
Total liabilities	64,145	-	-	-	64,145
Deferred inflows of resources:					
Unavailable revenues:					
Succeeding year property tax	2,035,437	500,000	139,392	-	2,674,829
Income surtax	124,080	-	74,448	-	198,528
Total deferred inflows of resources	2,159,517	500,000	213,840	-	2,873,357
Fund balances:					
Restricted for:					
Categorical funding	406,183	-	-	-	406,183
Management levy purposes	-	491,703	-	-	491,703
Student activities	-	-	-	101,163	101,163
School infrastructure	-	-	494,571	-	494,571
Physical plant and equipment	-	-	209,997	-	209,997
Unassigned:					
General	1,705,737	-	-	-	1,705,737
Student activities	-	-	-	(1,844)	(1,844)
Total fund balances	2,111,920	491,703	704,568	99,319	3,407,510
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 4,335,582</b>	<b>991,703</b>	<b>918,408</b>	<b>99,319</b>	<b>6,345,012</b>

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET POSITION  
 JUNE 30, 2014

<b>Total fund balances of governmental funds (page 20)</b>	\$	3,407,510
 <i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		4,500,946
Accounts receivable income surtax, are not yet available to finance expenditures of the current year and therefore, is shown as deferred inflows of resources in the governmental funds.		198,528
Long-term liabilities, including termination benefits payable and other postemployment benefits payable, are not due and payable in the current period, and therefore, are not reported as liabilities in the governmental funds.		<u>(326,805)</u>
<b>Net position of governmental activities (page 18)</b>	<b>\$</b>	<b><u>7,780,179</u></b>

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2014

	General	Management Levy	Capital Projects	Nonmajor	Total
Revenues:					
Local sources:					
Local tax	\$ 2,232,353	400,447	247,302	-	2,880,102
Tuition	417,813	-	-	-	417,813
Other	140,460	11,843	16,620	353,197	522,120
State sources	3,270,735	-	547,830	-	3,818,565
Federal sources	172,063	-	-	-	172,063
Total revenues	<u>6,233,424</u>	<u>412,290</u>	<u>811,752</u>	<u>353,197</u>	<u>7,810,663</u>
Expenditures:					
Current:					
Instruction:					
Regular	2,923,612	109,366	69,446	-	3,102,424
Special	728,483	-	-	-	728,483
Other	892,184	-	-	344,554	1,236,738
	<u>4,544,279</u>	<u>109,366</u>	<u>69,446</u>	<u>344,554</u>	<u>5,067,645</u>
Support services:					
Student	124,629	958	-	-	125,587
Instructional staff	263,753	479	11,440	-	275,672
Administration	622,082	29,021	-	-	651,103
Operation and maintenance of plant	569,171	64,380	8,910	1,197	643,658
Transportation	450,318	31,208	79,761	-	561,287
	<u>2,029,953</u>	<u>126,046</u>	<u>100,111</u>	<u>1,197</u>	<u>2,257,307</u>
Non-instructional programs:					
Food service operations	-	2,634	-	-	2,634
Capital outlay	-	-	887,568	-	887,568
Long-term debt:					
Principal	-	-	-	144,999	144,999
Interest and fiscal charges	-	-	-	4,407	4,407
	<u>-</u>	<u>-</u>	<u>-</u>	<u>149,406</u>	<u>149,406</u>
Other expenditures:					
AEA flowthrough	254,396	-	-	-	254,396
Total expenditures	<u>6,828,628</u>	<u>238,046</u>	<u>1,057,125</u>	<u>495,157</u>	<u>8,618,956</u>
Excess(Deficiency) of revenues over(under) expenditures	(595,204)	174,244	(245,373)	(141,960)	(808,293)
Other financing sources(uses):					
Transfer in	-	-	-	149,406	149,406
Transfer out	-	-	(149,406)	-	(149,406)
Insurance proceeds	1,943	-	-	-	1,943
Total other financing sources(uses)	<u>1,943</u>	<u>-</u>	<u>(149,406)</u>	<u>149,406</u>	<u>1,943</u>
Change in fund balances	(593,261)	174,244	(394,779)	7,446	(806,350)
Fund balances beginning of year	<u>2,705,181</u>	<u>317,459</u>	<u>1,099,347</u>	<u>91,873</u>	<u>4,213,860</u>
Fund balances end of year	<u>\$ 2,111,920</u>	<u>491,703</u>	<u>704,568</u>	<u>99,319</u>	<u>3,407,510</u>

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2014

**Change in fund balances - total governmental funds (page 22)** \$ (806,350)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities, and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amount of capital outlay expenditures, depreciation expense and loss on disposal in the current year are as follows:

Capital outlays	\$ 738,313	
Depreciation expense	(401,948)	
Loss on disposal of assets	<u>(528)</u>	335,837

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 144,999

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. 4,151

Income surtax account receivable is not available to finance expenditures of the current year period and is recognized as deferred inflows of resources in the governmental funds. (1,982)

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.

Termination benefits	(38,826)	
Other postemployment benefits	<u>(27,179)</u>	<u>(66,005)</u>

**Change in net position of governmental activities (page 19)** \$ (389,350)

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2014

	Enterprise		
	Day Care	School Nutrition	Total
<b>Assets</b>			
Current assets:			
Cash and pooled investments	\$ 5,200	76,503	81,703
Accounts receivable	15,941	-	15,941
Due from other governments	-	518	518
Inventories	-	14,873	14,873
<b>Total current assets</b>	<b>21,141</b>	<b>91,894</b>	<b>113,035</b>
Noncurrent assets:			
Capital assets, net of accumulated depreciation:			
Buildings	351,530	-	351,530
Machinery and equipment	49,292	246,714	296,006
<b>Total non current assets</b>	<b>400,822</b>	<b>246,714</b>	<b>647,536</b>
<b>Total assets</b>	<b>421,963</b>	<b>338,608</b>	<b>760,571</b>
<b>Liabilities</b>			
Current liabilities:			
Salaries and benefits payable	9,196	-	9,196
Unearned revenue	-	5,438	5,438
<b>Total current liabilities</b>	<b>9,196</b>	<b>5,438</b>	<b>14,634</b>
Noncurrent liabilities:			
Net OPEB liability	4,187	2,244	6,431
<b>Total liabilities</b>	<b>13,383</b>	<b>7,682</b>	<b>21,065</b>
<b>Net Position</b>			
Net investment in capital assets	400,822	246,714	647,536
Unrestricted	7,758	84,212	91,970
<b>Total net position</b>	<b>\$ 408,580</b>	<b>330,926</b>	<b>739,506</b>

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2014

	Enterprise		
	Day Care	School Nutrition	Total
Operating revenue:			
Local sources:			
Charges for service	\$ 227,728	139,745	367,473
Miscellaneous	14,608	119	14,727
Total operating revenue	<u>242,336</u>	<u>139,864</u>	<u>382,200</u>
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	-	95,302	95,302
Benefits	-	33,010	33,010
Services	-	306	306
Supplies	-	169,900	169,900
Depreciation	-	24,949	24,949
Other	-	15,522	15,522
	<u>-</u>	<u>338,989</u>	<u>338,989</u>
Other enterprise operations:			
Salaries	163,144	-	163,144
Benefits	56,267	-	56,267
Supplies	6,406	-	6,406
Depreciation	14,501	-	14,501
	<u>240,318</u>	<u>-</u>	<u>240,318</u>
Total operating expenses	<u>240,318</u>	<u>338,989</u>	<u>579,307</u>
Operating income(loss)	<u>2,018</u>	<u>(199,125)</u>	<u>(197,107)</u>
Non-operating revenues(expenses):			
Loss on disposal	-	(2,815)	(2,815)
State sources	-	2,840	2,840
Federal sources	-	165,502	165,502
Interest income	-	3	3
Total non-operating revenues(expenses)	<u>-</u>	<u>165,530</u>	<u>165,530</u>
Change in net position before other financing sources	2,018	(33,595)	(33,595)
OTHER FINANCING SOURCES:			
Capital contributions	-	210,703	210,703
Change in net position	2,018	177,108	179,126
Net position beginning of year	<u>406,562</u>	<u>153,818</u>	<u>560,380</u>
Net position end of year	<u>\$ 408,580</u>	<u>330,926</u>	<u>739,506</u>

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2014

	Enterprise		
	Day Care	School Nutrition	Total
Cash flows from operating activities:			
Cash received from operating activities	\$ 228,054	139,986	368,040
Cash received from miscellaneous	14,608	119	14,727
Cash payments to employees for services	(218,818)	(127,729)	(346,547)
Cash payments to suppliers for goods or services	(7,387)	(167,474)	(174,861)
Net cash provided by(used in) operating activities	<u>16,457</u>	<u>(155,098)</u>	<u>(138,641)</u>
Cash flows from non-capital financing activities:			
Interfund loan repayment	(10,659)	10,659	-
State grants received	-	2,840	2,840
Federal grants received	-	143,747	143,747
Net cash provided by(used in) non-capital financing activities	<u>(10,659)</u>	<u>157,246</u>	<u>146,587</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(598)	(1,167)	(1,765)
Cash flows from investing activities:			
Interest on investments	-	3	3
Net increase in cash and cash equivalents	5,200	984	6,184
Cash and cash equivalents beginning of year	-	75,519	75,519
Cash and cash equivalents end of year	<u>\$ 5,200</u>	<u>76,503</u>	<u>81,703</u>
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:			
Operating income(loss)	\$ 2,018	(199,125)	(197,107)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:			
Commodities consumed	-	21,237	21,237
Depreciation	14,501	24,949	39,450
Increase in inventories	-	(2,983)	(2,983)
Decrease in accounts receivable	326	-	326
Decrease in accounts payable	(981)	-	(981)
Decrease in salaries and benefits payable	(494)	-	(494)
Increase in unearned revenue	-	241	241
Increase in other postemployment benefits	1,087	583	1,670
Net cash provided by(used in) operating activities	<u>\$ 16,457</u>	<u>(155,098)</u>	<u>(138,641)</u>

NON-CASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES:

During the year ended June 30, 2014, the District's School Nutrition Fund received Federal commodities valued at \$21,237.

During the year ended June 30, 2014, the District's School Nutrition Fund received \$209,262 in contributed capital from the Capital Projects: Statewide Sales, Services and Use Tax Fund and \$1,441 from the Capital Projects: Physical Plant and Equipment Levy Fund.

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

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

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

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

**A. Reporting Entity**

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

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

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Position 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 Position presents the District's nonfiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

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

*Restricted net position* results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

*Unrestricted net position* consists of net position not meeting the definition of the two preceding categories. Unrestricted net position is often subject to constraints 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 that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Management Levy Fund is used to account for the payment of property insurance and unemployment benefits.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

The District reports the following major proprietary funds:

The Enterprise, School Nutrition Fund is used to account for the food services operations of the District.

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

### C. Measurement Focus and Basis of Accounting

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

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

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

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

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position 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.

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, Deferred Inflows of Resources and Fund Balances

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

Cash, Cash Equivalents, and Pooled Investments - 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.

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, 2012 assessed property valuations; is for the tax accrual period July 1, 2013 through June 30, 2014 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2013.

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 Position. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

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

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

Asset Class	Estimated Useful Lives
Buildings	50 years
Land improvements	20 years
Intangibles	2 or more years
Machinery and equipment	5-15 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.

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

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

Deferred Inflows of Resources - Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has

not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax receivables and other receivables not collected within sixty days after year end.

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

Fund Balances - 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.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2014, expenditures exceeded the amount budgeted in non-instructional programs functional area.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2014 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2014 the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$309,190 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAA by Standard & Poor's Financial Services.

(3) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	<u>\$ 149,406</u>

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

#### (4) Capital Assets

Capital assets activity for the year ended June 30, 2014 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 236,245	-	-	236,245
Construction in progress	119,816	537,097	656,913	-
Total capital assets not being depreciated	<u>356,061</u>	<u>537,097</u>	<u>656,913</u>	<u>236,245</u>
Capital assets being depreciated:				
Buildings	5,904,793	780,490	-	6,685,283
Land improvements	834,957	-	-	834,957
Machinery and equipment	2,184,756	77,639	186,321	2,076,074
Total capital assets being depreciated	<u>8,924,506</u>	<u>858,129</u>	<u>186,321</u>	<u>9,596,314</u>
Less accumulated depreciation for:				
Buildings	3,042,533	199,970	-	3,242,503
Land improvements	484,461	27,482	-	511,943
Machinery and equipment	1,588,464	174,496	185,793	1,577,167
Total accumulated depreciation	<u>5,115,458</u>	<u>401,948</u>	<u>185,793</u>	<u>5,331,613</u>
Total capital assets being depreciated, net	<u>3,809,048</u>	<u>456,181</u>	<u>528</u>	<u>4,264,701</u>
Governmental activities capital assets, net	<u>\$ 4,165,109</u>	<u>993,278</u>	<u>657,441</u>	<u>4,500,946</u>
<b>Business type activities:</b>				
Capital assets being depreciated:				
Buildings	\$ 475,654	-	-	475,654
Machinery and equipment	256,018	212,468	34,233	434,253
Total capital assets being depreciated	<u>731,672</u>	<u>212,468</u>	<u>34,233</u>	<u>909,907</u>
Less accumulated depreciation for:				
Buildings	114,221	9,903	-	124,124
Machinery and equipment	140,118	29,547	31,418	138,247
Total accumulated depreciation	<u>254,339</u>	<u>39,450</u>	<u>31,418</u>	<u>262,371</u>
Business type activities capital assets, net	<u>\$ 477,333</u>	<u>173,018</u>	<u>2,815</u>	<u>647,536</u>
Depreciation expense was charged by the District as follows:				
Governmental activities:				
Instruction:				
Regular				\$ 11,675
Other				1,358
Support services:				
Administration				8,538
Operation and maintenance of plant				4,146
Transportation				<u>148,779</u>
				174,496
Unallocated depreciation				<u>227,452</u>
Total governmental activities depreciation expense				<u>\$ 401,948</u>
Business type activities:				
Food service operations				\$ 24,949
Other enterprise operations				14,501
Total business type activities depreciation expense				<u>\$ 39,450</u>

**(5) Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2014 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
<b>Governmental activities:</b>					
Computer lease	\$ 144,999	-	144,999	-	-
Termination benefits	183,338	115,750	76,924	222,164	84,964
Net OPEB liability	77,462	27,179	-	104,641	-
Total	\$ 405,799	142,929	221,923	326,805	84,964
<b>Business type activities:</b>					
Net OPEB liability	\$ 4,761	1,670	-	6,431	-

Termination Benefits

The District offered an early retirement plan to its certified employees during fiscal years 2014 and 2012. Eligible employees must have been at least age fifty-five and have completed fifteen years of continuous service to the District. Employees submitted applications which required approval by the Board of Education.

The early retirement incentive for each eligible employee was based on total years of service, with each eligible employee receiving \$500 for every year of continuous service to the District, plus \$250 a month towards health insurance for 60 months or until the age of 65.

All benefit money is put in a Health Reimbursement Arrangement(HRA) and paid in five equal installments on or after July 1<sup>st</sup> annually. Retirees from the fiscal 2012 offering have three years of payments remaining through July 1, 2016. Retirees from the fiscal 2014 offering have five years of payments remaining through July 1, 2018.

At June 30, 2014, the District has obligation to fifteen participants with a total liability of \$222,164. Actual early retirement expenditures for the year ended June 30, 2014 totaled \$76,924.

**(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 5.95% of their annual covered salary and the District is required to contribute 8.93% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$367,811, \$327,395, and \$316,580 respectively, equal to the required contributions for each year.

**(7) Other Postemployment Benefits**

Plan Description - The District operates a single-employer health plan which provides medical and prescription drug benefits for employees, retirees, and their spouses. There are 46 active and 10 retired members in the plan. Retired participants must be age 55 or older at retirement.

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

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

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

The following table shows the components of the Districts OPEB cost for the year ended June 30, 2014, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$	59,155
Interest on net OPEB obligation		2,056
Adjustment to annual required contribution		<u>(9,946)</u>
Annual OPEB cost		51,265
Contributions made		<u>(22,416)</u>
Increase in net OPEB obligation		28,849
Net OPEB obligation beginning of year		<u>82,223</u>
Net OPEB obligation end of year	\$	<u>111,072</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, 2014.

For the year ended June 30, 2014, the District contributed \$22,416 to the medical plan.

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

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 38,193	22.84%	\$ 52,625
2013	62,984	53.01%	82,223
2014	51,265	43.73%	111,072

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$323,554, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$323,554. The covered payroll (annual payroll of active employees covered by the plan) was \$2,695,163, and the ratio of the UAAL to covered payroll was 12.00%. As of June 30, 2014 there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of event far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the

Retiree Health Plan, 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 July 1, 2012 actuarial valuation date, the Entry Age Actuarial Cost Method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were based upon national termination studies in the 2006 Society of Actuaries Study.

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

	Single	Family
\$100 Deductible	\$ 617	\$ 1,535
\$250 Deductible	588	1,463
\$500 Deductible	549	1,365
\$1000 Deductible	532	1,312

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

**(8) Risk Management**

Pekin Community School District is a member in the Southeast Iowa School Employees Benefits Health Plan, an Iowa Code Chapter 28E organization. The Southeast Iowa School Employees Benefits Health Plan (SEISHP) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. SEISHP was for the purpose of managing and funding employee benefits. SEISHP provides coverage and protection in the following categories: medical and dental.

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

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to SEISHP for the year ended June 30, 2014 was \$535,928.

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

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

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

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District’s actual amount for this purpose totaled \$254,396 for the year ended June 30, 2014 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 balances for categorical funding at June 30, 2014 is comprised of the following programs:

Program	Amount
Home school assistance program	\$ 9,361
Gifted and talented	130,089
Dropout and dropout prevention	73,871
Beginning teacher mentoring and induction program	3,615
Teacher salary supplement	46,824
Four-year-old preschool state aid	54,869
Professional development for model core curriculum	43,628
Professional development	35,975
Teacher leadership grants	7,087
Governor's Advisory Council STEM scale-up programs	864
Total	<u>\$ 406,183</u>

**(11) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2014, expenditures in the non-instructional programs functional area exceeded the amount budgeted.

**(12) Deficit Accounts/Fund Balance**

The District had an account within the Student Activity Fund with a deficit unassigned balance of \$1,844 at June 30, 2014.

**(13) Prospective Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 68 Accounting and Financial Reporting for Pensions - an Amendment to GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the government’s proportionate share of the employee pension plan.

**(14) Reconciliation of Governmental Fund Balances to Net Position**

Reconciliation of certain governmental fund balances to net position are as follows:

	Management Levy	Unassigned/ Unrestricted
Fund balance (Exhibit C)	\$ 491,703	1,705,737
Unassigned for student activities	-	(1,844)
Income surtax	-	198,528
Termination benefits payable	(220,364)	(1,800)
Net OPEB liability	-	(104,641)
Net position (Exhibit A)	\$ 271,339	1,795,980

**PEKIN COMMUNITY SCHOOL DISTRICT**

REQUIRED SUPPLEMENTARY INFORMATION

PEKIN COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2014

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Funds	Funds		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 3,820,035	382,203	4,202,238	4,478,553	4,478,553	(276,315)
State sources	3,818,565	2,840	3,821,405	3,162,314	3,162,314	659,091
Federal sources	172,063	165,502	337,565	275,000	275,000	62,565
Total revenues	<u>7,810,663</u>	<u>550,545</u>	<u>8,361,208</u>	<u>7,915,867</u>	<u>7,915,867</u>	<u>445,341</u>
Expenditures/expenses:						
Instruction	5,067,645	-	5,067,645	5,240,000	5,240,000	172,355
Support services	2,257,307	-	2,257,307	2,237,500	2,312,500	55,193
Non-instructional programs	2,634	582,122	584,756	564,200	564,200	(20,556)
Other expenditures	1,291,370	-	1,291,370	1,668,701	1,668,701	377,331
Total expenditures/expenses	<u>8,618,956</u>	<u>582,122</u>	<u>9,201,078</u>	<u>9,710,401</u>	<u>9,785,401</u>	<u>584,323</u>
Excess(Deficiency) of revenues over(under) expenditures/expenses	(808,293)	(31,577)	(839,870)	(1,794,534)	(1,869,534)	1,029,664
Other financing sources, net	<u>1,943</u>	<u>210,703</u>	<u>212,646</u>	<u>-</u>	<u>-</u>	<u>212,646</u>
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	(806,350)	179,126	(627,224)	(1,794,534)	(1,869,534)	1,242,310
Balances beginning of year	<u>4,213,860</u>	<u>560,380</u>	<u>4,774,240</u>	<u>4,285,786</u>	<u>4,285,786</u>	<u>488,454</u>
Balances end of year	<u>\$ 3,407,510</u>	<u>739,506</u>	<u>4,147,016</u>	<u>2,491,252</u>	<u>2,416,252</u>	<u>1,730,764</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PEKIN COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2014

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment, increasing budgeted expenditures by \$75,000.

During the year ended June 30, 2014, expenditures in the non-instructional programs functional area exceeded the amount budgeted.

PEKIN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FUNDING PROGRESS FOR THE  
RETIREE HEALTH PLAN  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2014

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	\$ 360,100	\$ 360,100	0.00%	\$ 3,759,606	9.58%
2011	July 1, 2009	-	333,884	333,884	0.00%	3,102,099	10.76%
2012	July 1, 2009	-	320,207	320,207	0.00%	3,609,375	8.87%
2013	July 1, 2012	-	364,246	364,246	0.00%	2,159,856	16.86%
2014	July 1, 2012	-	323,554	323,554	0.00%	2,695,163	12.00%

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SUPPLEMENTARY INFORMATION

PEKIN COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2014

	<u>Special Revenue</u>		
	Student Activity	Debt Service	Total
Revenues:			
Local sources:			
Other	\$ 353,197	-	353,197
Expenditures:			
Current:			
Instruction:			
Other	344,554	-	344,554
Support services:			
Operation and maintenance of plant	1,197	-	1,197
Long-term debt:			
Principal	-	144,999	144,999
Interest and fiscal charges	-	4,407	4,407
Total expenditures	345,751	149,406	495,157
Excess(Deficiency) of revenues over(under) expenditures	7,446	(149,406)	(141,960)
Other financing sources:			
Transfer in	-	149,406	149,406
Change in fund balances	7,446	-	7,446
Fund balances beginning of year	91,873	-	91,873
Fund balances end of year	\$ 99,319	-	99,319

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PEKIN COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2014

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Music Department	\$ 369	-	369	-
HS Cross Country	2,373	13,744	14,058	2,059
HS Boys Basketball	3,415	16,625	15,235	4,805
HS Football	5,659	30,111	30,721	5,049
HS Baseball	-	7,309	7,289	20
HS Boys Track	4,738	8,787	9,737	3,788
HS Wrestling	-	7,620	7,620	-
HS Girls Basketball	15,573	27,536	31,212	11,897
HS Volleyball	645	15,865	10,595	5,915
HS Softball	654	10,605	10,229	1,030
HS Girls Track	5,239	9,008	10,055	4,192
National Honor Society	526	228	520	234
Athletics	13,082	20,531	14,243	19,370
Freshman Misc	1,609	230	1,839	-
Scholarship	805	301	1,106	-
Class of 2015	-	13,066	10,531	2,535
Milk Machine	380	-	380	-
Cheerleaders	886	2,775	3,442	219
Concessions	454	6,249	6,703	-
Dramatics/Musical	3,430	2,233	1,458	4,205
Spanish Club	727	1,417	940	1,204
FFA	1,833	51,749	51,659	1,923
FHA	12,441	2,780	4,778	10,443
Student Music	309	2,674	2,983	-
Calendar	35	-	35	-
Miscellaneous Activity	-	2,317	2,047	270
Student Activity	(1,844)	-	-	(1,844)
Student Council	2,190	1,567	683	3,074
Yearbook	2,332	11,315	10,635	3,012
After Prom	668	7,483	7,558	593
Middle School	-	727	300	427
Fitness Room	383	-	383	-
Industrial Arts	487	-	487	-
8th Grade Field Trip	6,095	76,520	75,027	7,588
Musical	1,737	-	-	1,737
Elementary Activities	4,643	1,825	894	5,574
<b>Total</b>	<b>\$ 91,873</b>	<b>353,197</b>	<b>345,751</b>	<b>99,319</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PEKIN COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECT ACCOUNTS  
 JUNE 30, 2014

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
<b>Assets</b>			
Cash and pooled investments	\$ 251,310	207,981	459,291
Receivables:			
Property tax:			
Delinquent	-	2,016	2,016
Succeeding year	-	139,392	139,392
Income surtax	-	74,448	74,448
Accounts	359	-	359
Due from other governments	242,902	-	242,902
<b>Total assets</b>	<b>\$ 494,571</b>	<b>423,837</b>	<b>918,408</b>
<b>Liabilities, deferred inflows of resources and fund balances</b>			
Liabilities	\$ -	-	-
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	-	139,392	139,392
Income surtax	-	74,448	74,448
Total deferred inflows of resources	-	213,840	213,840
Fund balances:			
Restricted for:			
School infrastructure	494,571	-	494,571
Physical plant and equipment	-	209,997	209,997
Total fund balances	494,571	209,997	704,568
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 494,571</b>	<b>423,837</b>	<b>918,408</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PEKIN COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 CAPITAL PROJECT ACCOUNTS  
 YEAR ENDED JUNE 30, 2014

	Capital Projects		Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	
Revenues:			
Local sources:			
Local tax	\$ -	247,302	247,302
Other	15,474	1,146	16,620
State sources	547,830	-	547,830
Total revenues	563,304	248,448	811,752
Expenditures:			
Current:			
Instruction:			
Regular	69,446	-	69,446
Support services:			
Instructional staff	2,473	8,967	11,440
Operation and maintenance of plant	-	8,910	8,910
Transportation	-	79,761	79,761
Capital outlay	885,818	1,750	887,568
Total expenditures	957,737	99,388	1,057,125
Excess(Deficiency) of revenues over(under) expenditures	(394,433)	149,060	(245,373)
Other financing uses:			
Transfer out	(149,406)	-	(149,406)
Change in fund balances	(543,839)	149,060	(394,779)
Fund balances beginning of year	1,038,410	60,937	1,099,347
Fund balances end of year	\$ 494,571	209,997	704,568

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**PEKIN COMMUNITY SCHOOL DISTRICT**  
**SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION**  
**ALL GOVERNMENTAL FUNDS**  
**FOR THE LAST TEN YEARS**

	Modified Accrual Basis									
	Years Ended June 30,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenues:										
Local sources:										
Local tax	\$ 2,880,102	3,309,599	4,100,899	3,941,663	3,803,885	3,625,322	3,285,942	3,195,068	2,957,599	2,853,138
Tuition	417,813	358,309	382,868	385,656	369,704	375,995	356,368	305,266	330,893	261,287
Other	522,120	455,503	513,110	534,431	545,105	575,838	539,029	646,224	494,350	444,753
Intermediate sources	-	-	3,557	1,454	-	-	-	-	-	-
State sources	3,818,365	3,262,414	3,298,573	3,457,861	2,947,462	3,482,412	3,527,865	3,146,151	3,079,811	3,053,864
Federal sources	172,063	181,021	280,115	383,916	584,562	187,302	196,305	238,102	261,531	290,661
<b>Total</b>	<b>\$ 7,810,663</b>	<b>7,566,846</b>	<b>8,579,122</b>	<b>8,704,981</b>	<b>8,250,718</b>	<b>8,246,869</b>	<b>7,905,509</b>	<b>7,530,811</b>	<b>7,124,184</b>	<b>6,903,703</b>
Expenditures:										
Current:										
Instruction:										
Regular	\$ 3,102,424	2,826,049	2,957,607	3,504,972	2,848,275	2,718,239	3,095,145	2,567,486	2,681,722	2,515,018
Special	728,483	667,525	674,743	738,231	891,569	761,407	825,341	681,974	771,791	637,900
Other	1,236,738	1,166,936	1,196,002	1,211,395	1,339,794	1,392,707	920,694	1,337,699	877,824	925,675
Support services:										
Student	125,587	117,299	113,367	82,467	105,973	104,328	92,250	86,846	133,614	105,128
Instructional staff	275,672	177,923	271,648	209,624	185,670	218,214	202,030	186,990	154,989	132,051
Administration	651,103	615,652	638,337	574,508	595,601	671,110	611,641	713,263	655,076	539,383
Operation and maintenance of plant	643,658	634,846	608,061	623,839	581,413	644,534	598,892	525,206	577,475	546,830
Transportation	561,287	661,809	582,870	568,695	591,922	607,463	580,514	412,694	607,359	428,914
Non-instructional programs	2,634	3,903	4,825	16,095	8,925	5,481	59,436	25,834	2,056	127,791
Capital outlay	887,568	333,380	301,586	235,991	650,255	334,573	197,485	353,805	13,422	294,017
Long-term debt:										
Principal	144,999	140,721	136,570	137,645	5,104	5,104	125,000	120,000	143,828	266,944
Interest and fiscal charges	4,407	8,665	12,836	16,866	-	-	10,825	9,315	11,540	21,266
Other expenditures:										
AEA flow-through	254,396	246,971	247,288	277,917	278,015	247,428	239,400	215,287	205,154	203,860
<b>Total</b>	<b>\$ 8,618,956</b>	<b>7,601,679</b>	<b>7,745,740</b>	<b>8,198,245</b>	<b>8,082,516</b>	<b>7,710,588</b>	<b>7,558,653</b>	<b>7,236,399</b>	<b>6,835,850</b>	<b>6,744,777</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

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

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pekin Community School District as of and for the year ended June 30, 2014, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 23, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Pekin Community School District's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pekin Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Pekin Community School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-A-14 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Pekin Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an

opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### **Pekin Community School District's Responses to Findings**

Pekin Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Pekin Community School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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



NOLTE, CORNMAN & JOHNSON, P.C.

March 23, 2015  
Newton, Iowa

PEKIN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2014

**Part I: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

I-A-14 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual has control over each of the following areas for the District:

- 1) Cash - initiating cash receipt and disbursement transactions and handling and recording cash.
- 2) Investments - investing, detailed recordkeeping, custody of investments and reconciling earnings.
- 3) Disbursements - purchase order processing, check preparation, mailing and recording.
- 4) Inventories - ordering, receiving, issuing and storing.
- 5) Payroll - recording approved pay rates and deductions, recordkeeping, preparation, posting and distribution.
- 6) Financial reporting - preparing, reconciling and approving.

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

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

Conclusion - Response accepted.

PEKIN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2014

**Part II: Other Findings Related to Required Statutory Reporting:**

II-A-14 Certified Budget - District disbursements for the year ended June 30, 2014 exceeded the certified budget in the non-instructional programs functional area.

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

Response - The District will monitor expenditures more closely and amend the budget if necessary.

Conclusion - Response accepted.

II-B-14 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II -C-14 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-14 Business Transactions - Business transactions between the District and District officials were noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Steve Copeland, Board President Owns Copeland Autobody Inc.	Auto Repair/Towing Services	\$2,462

In accordance with Chapter 279.7A of the Code of Iowa the transactions with Board President, Steve Copeland, do not appear to represent a conflict of interest.

II -E-14 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II -F-14 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted discrepancies in the District's minutes as follows:

**Closed Sessions** - We noted the minutes did not document the code section allowing the school board to enter a closed session as required by Iowa Code.

Recommendation - The vote of each board member on the question of holding the closed session and the reason for holding a closed session must be referenced by the specific exemption under Chapter 21.5(1) and announced publicly at the open session as well as entered into the minutes. A governmental body shall not discuss any business during the closed session which does not pertain to the exemption given under Chapter 21.5 of the Iowa Code.

Response - The Board will go into closed session on a roll call vote. All closed sessions will be referenced by the specific exemption under Iowa Code 21.5(1), announced publicly in open session and recoded as such in the minutes.

Conclusion - Response accepted.

II -G-14 Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

II-H-14 Supplementary Weighting - We noted variances in the supplementary weighting data certified to the Department of Education. Supplementary weighting was overstated by 0.25 for the fall of 2013 count date.

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

Response - The District's auditors will contact the Iowa Department of Education and Department of Management on our behalf to resolve this matter.

Conclusion - Response accepted.

II -I-14 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II -J-14 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

II -K-14 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

II-L-14 Student Activity Fund - In accordance with 298A.8 of the Code of Iowa and Iowa Administrative Code 281-12.6(1), the purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for students. However, we noted expenditures which do not appear to be related to cocurricular or extracurricular activities.

**Questionable Accounts:** We noted an Elementary Activity account within the Student Activity Fund. The expenditures in this account appear to be used for District field trips during days of instruction. Field trip expenditures would appear to be instructional in nature and, therefore, more appropriately handled in the General Fund.

Recommendation - The District should review the propriety of revenues and expenditures approved in the Student Activity Fund. The revenues and expenditures in the Elementary Activity account appear to be instructional in nature and, therefore, more appropriately handled in the General Fund.

Response - The District has moved the Elementary Account from the Student Activity Fund to the General Fund.

Conclusion - Response accepted.

II -M-14 Statewide Sales, Services and Use Tax - No instances of non-compliance with the allowable uses of the statewide sales, services and use tax revenue provided in Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services, and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2014, the following information includes the amounts the District reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2014 audit.

Beginning Balance		\$	1,038,410
Revenues/transfers in:			
Sales tax revenues	\$	547,830	
Other local revenues		15,474	563,304
			<u>1,601,714</u>
Expenditures/transfers out:			
School infrastructure construction		826,790	
Equipment		98,444	
Other		32,503	
Transfers to other funds:			
Debt service fund		149,406	1,107,143
			<u>1,107,143</u>
Ending balance		\$	<u>494,571</u>

For the year ended June 30, 2014, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

II-N-14 Financial Condition - The District had an account within the Student Activity Fund with a deficit unassigned balance of \$1,844 at June 30, 2014.

Recommendation - The District should monitor this account and investigate alternatives to eliminate the deficit balance.

Response - The District will monitor the Activity Fund more closely and eliminate this deficit balance.

Conclusion - Response accepted.

II-O-14 Checks Outstanding - We noted during our audit that the District had checks included in the Activity Fund bank reconciliations that have been outstanding for over a year.

Recommendation - The District needs to determine if the checks need to be voided, reissued or submitted to the State Treasurer as unclaimed property. 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 1<sup>st</sup>.

Response - The District will investigate outstanding checks to verify if they need to be voided, reissued or submitted to the State Treasurer as unclaimed property.

Conclusion - Response accepted.

II-P-14 Check Signatures - We noted the Superintendent's Secretary was signing checks in place of the Board President for checks written out of the Student Activity Fund and School Nutrition Fund. However, we were unable to determine that the Superintendent's Secretary was designated as an authorized signer on behalf of the Board President in the District board minutes.

Recommendation - The District should review their procedures to ensure the proper signatures are on all checks (Board President, or Designee, and Board Secretary) before sending them out, in order to be in compliance with Chapter 291.1 and Chapter 291.8 of the Code of Iowa. Chapter 291.1 of the Code of Iowa allows, “the board of directors, by resolution, may designate an individual...to sign warrants on behalf of the president.” If the District wishes to allow the Superintendent’s Secretary to sign on behalf of the Board President, they should do so through official board action.

Response - The District will ensure all checks have sufficient signatures. The Board has approved the designation of the Superintendent’s Secretary to sign all activity and nutrition checks.

Conclusion - Response accepted.