

Des Moines Independent Community School District

Basic Financial Statements and Supplementary Information

06.30.2004

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Education
Des Moines Independent Community School District
Des Moines, Iowa

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 Des Moines Independent Community School District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Chapter 11 of the Code of Iowa. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Des Moines Independent Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 and the Budgetary Comparison Schedule on pages 41 through 43 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The combining statements and individual fund statements as well as the accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget A-133, Audits of States, Local Governments and Nonprofit Organizations, as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Davenport, Iowa
November 4, 2004

Des Moines Independent Community School District

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004

This Management's Discussion and Analysis is provided by the management of the Des Moines Independent Community School District (District) to offer readers an overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2004. We encourage readers to consider this Discussion and Analysis presented here in conjunction with the financial statements, which follow.

Financial Highlights

- **Budget:** The State of Iowa legislatively approved an allowable growth factor of 2% from fiscal year 2003 to fiscal year 2004 for the District's General Fund. This resulted in \$1.7 million of new regular program funding. During the fiscal year, in October 2003, the Governor called for an across-the-board cut of 2.5% in FY04 spending or approximately a \$3.5 million reduction in state aid. In June, the Governor rescinded 10% of the across-the-board reduction, thus giving the District back approximately \$350,000.

In May, the board approved a budget amendment, primarily to increase the budgets in the Property Plant and Equipment Levy (PPEL) and Capital Projects funds for the proceeds from Qualified Zone Academy Bonds (QZAB) and PPEL notes, as well as fundraising activities. The budget was also increased because more federal and local grants were received than anticipated.

While the budget for the fourth year in a row continued to be very tight, the District, by making tough choices, was able to stay within its statutory budget in each of its legally required spending categories.

- **Revenue:** District-wide revenues were \$335.2 million, which primarily consisted of state aid, property taxes and sales taxes. General Fund revenues accounted for 79.6% of the District-wide revenue. Program specific revenues in the form of charges for services and grants, and contributions accounted for 24.2% percent of total fiscal year 2004 revenues.

The General Fund had \$266.8 million in revenues for fiscal year 2004, which primarily consisted of state aid and property taxes. General Fund revenues increased from \$264.5 million in fiscal year 2003 to \$266.8 in fiscal year 2004. The 0.8% increase in General Fund revenues was attributable to increases in state aid, property taxes and other state, federal and local resources in fiscal year 2004.

- **Expenses:** The District had \$294.9 million in expenses related to governmental activities, of which \$65.6 million of these expenses were offset by program specific charges for services or grants and contributions. General revenues of \$253.9 million provided for the remaining costs of these programs.

The General Fund had \$267.9 million in fiscal year 2004 expenses, which primarily consisted of instructional expenses. General Fund expenses increased from \$267.5 in fiscal year 2003 to \$267.9 in fiscal year 2004. The increase in General Fund expenses was primarily attributable to increases in salaries, benefits, and utilities in fiscal year 2004.

- **General Fund Balance and Solvency Ratio:** The District's overall General Fund balance decreased from \$12.7 million as of June 30, 2003 to \$11.5 million as of June 30, 2004, primarily due to the board approved use of fund balance to cover expenses.

However, the General Fund undesignated and unreserved portion of fund balance increased from \$8.4 million as of June 30, 2003 to \$9.3 million as of June 30, 2004, as reservations of fund balance decreased because reservations for prepaid expense, inventories and federal funding decreased.

Des Moines Independent Community School District

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004

The District's solvency ratio (unreserved-undesignated fund balance/General Fund revenues) decreased from 4.11% to 3.47%. The Iowa Association of School Boards recommends a solvency ratio of 5% - 10% as a "target solvency position." A solvency ratio from 3-5% is considered an "acceptable solvency position," but "continued close monitoring of the school corporation budget to prevent operating shortfalls and the deterioration of financial position is necessary."

- **Debt:** The District's total debt increased by a net of \$3.1 million during the current fiscal year. The District issued Qualified Zone Academy Bonds in the amount of \$1 million, and PPEL notes of \$3.1 million, and retired \$1 million in debt. The total outstanding general obligation debt at the end of the fiscal year is \$5.5 million.
- **Management Fund:** The District's early retirement plan changed effective July 1, 2002. More employees than expected retired as of June 30, 2003 because the benefits of the outgoing plan were greater than the benefits of the incoming plan. In addition, more employees than expected have continued to retire since the beginning of the incoming plan.

As the intent of the District was to create a special termination benefit which was offered for a short period of time, it was determined the benefit should be treated in accordance with NCGA18 as it does not meet the requirements of a postemployment benefit.

At the same time, as renovated schools come back on line, the square footage and value of the District's school buildings has continued to increase, thereby increasing the costs of the District's property and casualty insurance paid from the Management Fund.

The Management Fund property tax levy was increased during fiscal year 2003, to cover these increasing expenses. However, the Management Fund tax levy during fiscal year 2004 was not sufficient to cover the expenses incurred. It should be noted, that an increase property tax levy was approved by the Board for FY05 with the anticipation that the Management Fund should become solvent at the end of fiscal year 2005.

- **Capital Projects and Schools First Plan:** Revenues from sales taxes increased \$1.1 million from fiscal year 2003 to 2004; however, expenses decreased by \$900,000 from fiscal year 2003 to 2004. Four schoolhouse renovation projects were completed during fiscal year 2004.

Overview of the Financial Statements

This Discussion and Analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) District-wide financial statements, 2) fund financial statements, and 3) notes to basic financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

District-wide financial statements: The District-wide financial statements (also sometimes called "government-wide" financial statements) are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements provide both short-term and long-term information about the District's overall financial status. That is, all of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when the cash is received or paid.

Des Moines Independent Community School District

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004

Over time, increases or decreases in the District's net assets are an indicator of whether the financial position is improving or deteriorating, respectively. However, to assess the District's overall financial health, nonfinancial factors should also be considered, such as changes in the District's property tax base and the condition of District school buildings.

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

- **Governmental activities:** These are activities primarily supported by property taxes and intergovernmental revenues such as state aid or federal funding, and expenditures are classified by function such as instruction, support services, operation and maintenance of plant, student transportation, operation of non-instructional services, and capital construction.
- **Business-type activities** are those supported by fees charged by the District to help cover the costs of services such as food services, childcare services, home remodeling, automotive, and a wellness center.

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. These statements focus on individual parts (funds) of the District, reporting the District's operations in more detail than the District-wide statements. Some funds are required by state law or bond covenants; some are established to control and manage money for particular purposes.

All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- **Governmental funds:** Governmental funds are used to account for essentially the same functions reported as governmental activities in the District-wide financial statements. These statements explain how basic services, such as regular program and special education, were financed in the short-term as well as what remains for future spending.

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General and Capital Projects – Sales Tax Funds, both of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. This aggregated information includes Special Revenue Funds (Student Activity, Management, Physical Plant and Equipment Levy, Public Education and Recreation Levy, and Des Moines Public Schools Trust), the Debt Service Fund, Capital Projects (Greenhouse) and the Permanent Fund.

Des Moines Independent Community School District

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004

- **Proprietary funds:** Proprietary funds offer short-term and long-term financial information about the activities the District operates like businesses, i.e. fees are charged to cover the cost of services rendered.

These funds include activities defined as enterprise funds and internal service funds. The District's enterprise funds include School Nutrition, Child Care, Home Remodeling, Automotive, and Wellness Center.

The District has four internal service funds, Self Insurance, Risk Management, Collage and Print Shop. Because all of these services predominately benefit the District's governmental activities, rather than the business-type activities, they have been included in the governmental activities in the District-wide financial statements.

- **Fiduciary funds:** Fiduciary funds provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others. Fiduciary funds are not reflected in the District-wide financial statements because the resources of those funds are not available to support the District's own programs. These funds include Pension Trust, Private-Purpose Trust and Agency Funds.

Notes to the financial statements: The financial statements also include notes that provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements.

Major features of the District-wide and fund financial statements:

	District-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	Activities that are not proprietary or fiduciary, such as instruction, administration, and building maintenance	Activities the District operates similar to private businesses such as school nutrition	Activities that the District administers resources on behalf of someone else, such as scholarships
Required financial statements	Statement of Net Assets	Balance Sheet	Statement of Net Assets	Statement of Fiduciary Net Assets
	Statement of Activities	Statement of Revenues, Expenditures, and Changes in Fund Balances	Statement of Revenue, Expenses, and Changes in Net Assets Statement of Cash Flows	Statement of Changes in Fiduciary Net Assets
Accounting basis	Accrual accounting	Modified accrual accounting	Accrual accounting	Accrual accounting
Measurement focus	Economic resources focus	Current financial focus	Economic resources focus	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	All assets and liabilities, both 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 within specified periods after year-end of the year; expenditures when goods or services are received and liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Des Moines Independent Community School District

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's budget process. The District adopts an annual expenditure budget for all budgeted governmental funds, enterprise and trust funds in total. A budgetary comparison schedule has been provided.

District-Wide Financial Analysis

Net assets: The following table presents a summary of the District's net assets for the year ended June 30, 2004 with comparison totals as of June 30, 2003.

	2004		2003	
	Governmental Activities	Business-Type Activities	Total	Total
Current assets	\$ 167,915,302	\$ 1,601,444	\$ 169,516,746	\$ 160,310,781
Capital assets, net	156,265,541	1,572,525	157,838,066	114,747,913
Other non-current assets	23,870	-	23,870	-
Total assets	324,204,713	3,173,969	327,378,682	275,058,694
Current liabilities	155,251,376	559,356	155,810,732	138,144,172
Long-term liabilities	12,842,703	24,602	12,867,305	2,824,828
	168,094,079	583,958	168,678,037	140,969,000
Net assets:				
Invested in capital assets, net of debt	150,807,994	1,572,525	152,380,519	112,367,913
Restricted	4,993,858	-	4,993,858	7,890,843
Unrestricted	308,782	1,017,486	1,326,268	13,830,938
Total net assets	\$ 156,110,634	\$ 2,590,011	\$ 158,700,645	\$ 134,089,694

The District's combined net assets were significantly greater as of June 30, 2004 than June 30, 2003. The increase occurred primarily in the governmental funds net capital assets as a result of the aggressive activities relative to the District's capital project spending as part of the District's Schools First renovation plan. It should be noted that the District uses these capital assets to provide educational service; consequently, these assets are not available for future spending.

At the end of the current fiscal year, The District is able to report positive balances in all three categories of net assets. The same held true for the prior year.

Des Moines Independent Community School District

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004

Changes in net assets: The following schedule shows the changes in net assets for the year ended June 30, 2004 with comparison totals for the year ended June 30, 2003. The difference between revenues and expenditures represents the change in net assets.

	2004		2003	
	Governmental Activities	Business-Type Activities	Total	Total
Revenues:				
Program revenues:				
Charges for services	\$ 23,502,251	\$ 8,112,544	\$ 31,614,795	\$ 31,296,992
Operating grants and contributions	39,594,789	7,542,929	47,137,718	47,655,040
Capital grants and contributions	2,469,240	-	2,469,240	956,208
General revenues:				
Property taxes	87,744,733	-	87,744,733	84,849,026
Sales tax, capital projects	30,279,709	-	30,279,709	29,144,228
Investment earnings	539,591	-	539,591	611,507
State aid and other state sources	133,940,022	-	133,940,022	132,371,415
Other	1,440,272	-	1,440,272	1,391,226
Total revenues	319,510,607	15,655,473	335,166,080	328,275,642
Expenses:				
Instruction	196,440,822	-	196,440,822	188,029,574
Support services	86,808,814	-	86,808,814	83,207,908
Noninstructional	2,412,415	-	2,412,415	4,931,839
Other expenses	9,231,274	15,661,804	24,893,078	24,860,838
Total expenses	294,893,325	15,661,804	310,555,129	301,030,159
Revenues over (under) expenses before transfers	24,617,282	(6,331)	24,610,951	27,245,483
Transfers	(50,000)	50,000	-	-
Change in net assets	24,567,282	43,669	24,610,951	27,245,483
Beginning, net assets	131,543,352	2,546,342	134,089,694	106,844,211
Ending, net assets	\$ 156,110,634	\$ 2,590,011	\$ 158,700,645	\$ 134,089,694

- The main revenue sources of State aid and other state sources, property and sales taxes account for 75% of total revenue.
- The District's expenses primarily relate to instruction and support services which account for 91% of the total expenses.

Des Moines Independent Community School District

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004**

Governmental Activities

- State aid and other state sources, property taxes, and sales taxes are the primary sources of revenue for the District, 42%, 27% and 9%, respectively, of total revenues.
- Instruction constitutes the largest portion of expenditures at \$196 million or 66.6%. The District offers a wide array of programs including general and special education, vocational and college preparatory classes.
- The purely administrative activities (noninstructional and other expenses) of the District accounted for 4% of total costs.
- Over 80% of the District's expenditures are for salaries and benefits.

Net Cost: The following table presents the total and net cost of the District's major governmental activities: instruction, support services, noninstructional programs and other expenses, with comparative totals for 2003.

	2004		2003	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	\$ 196,440,822	\$ (142,877,982)	\$ 188,029,574	\$ (135,829,723)
Other support services	86,808,814	(84,426,475)	83,207,908	(82,071,606)
Noninstructional programs	2,412,415	(1,932,100)	4,931,839	(3,634,431)
Other expenses	9,231,274	(90,488)	9,967,808	(130,334)
Total expenses	\$ 294,893,325	\$ (229,327,045)	\$ 286,137,129	\$ (221,666,094)

Net cost of governmental activities was financed by general revenues, which are made up of primarily property taxes and state aid. Federal and state governments and charges for services subsidized certain programs with grants and contributions and other local revenues of \$65.6 million or 22.2% of total governmental activities expenses.

Business-Type Activities – Change in Net Assets:

- The School Nutrition and Child Care programs constitute the majority of the business-type activities.
- The primary sources of income are federal revenues and charges for services.
- The School Nutrition primary expenses are staff and commodities. The District's free and reduced participation increased during the fiscal year due to the downward trend in the economy. The School Nutrition Fund had a change in net assets of approximately \$.3 million for fiscal year 2004.
- The primary source of revenue for the Child Care program is child care fees and the primary expense is staff. The Child Care Fund had a change in net assets of \$(328,782).

Des Moines Independent Community School District

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004

Financial Analysis of the District's Funds

Governmental Funds Highlights

General Fund:

- The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$1.2 million, which was primarily due to the planned use of fund balance to cover current expenditures as approved during the original fiscal year 2004 budget development process and then again approved mid-year to mitigate the mid-year state across the board budget reduction. Therefore, the District's solvency ratio (unreserved-undesignated fund balance/General Fund revenues) decreased from 4.11% to 3.47%.
- The increase in General Fund revenues over fiscal year 2003 was primarily attributable to increases in property taxes, state aid and federal grant revenue in fiscal year 2004.
- The increase in General Fund expenses over fiscal year 2003 was primarily attributable to increases in salaries, benefits, and utilities in fiscal year 2004.

Capital Projects – Sales Tax:

- The fund balance in the Capital Projects – Sales Tax Fund, which is restricted for construction, decreased by \$2.8 million due mainly to the District's aggressive Schools First ten-year construction program.
- Revenues from sales taxes increased from fiscal year 2003 to 2004; however, expenses decreased from fiscal year 2003 to 2004. Four schoolhouse renovation projects were completed. As a result, fund balance decreased due to expenses still exceeding current year revenue.

Proprietary Fund Highlights

There are no major enterprise funds; however, the School Nutrition Fund net assets increased from June 30, 2003 to June 30, 2004. The District's percent of students eligible for free and reduced meals increased from fiscal year 2003 to 2004, resulting in increased federal funding to cover these meals.

Budgetary Highlights

In accordance with state law, the School Board annually adopts a budget following required public notice and hearing. The legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared in accordance with accounting principles generally accepted in the United States of America. The District modified its adopted budget once during fiscal year 2004.

- The District's General Fund or operating fund continues to remain financially solvent even though the fund's budget has withstood \$23.5 million in budget reductions over the past four years.
- In spite of a downward turn in the economy, resulting in across-the-board reduction in state aid and reduced investment earnings, the District was able to remain within its final certified budget for the District.

Des Moines Independent Community School District

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004**

- General Fund expenditures remained within the District's final budget. However, current revenues did not cover current expenditures due primarily to the planned use of fund balance to cover current expenditures.
- The District received 98.4% of budgeted General Fund revenues, primarily due to a cap on state aid and reduced investment earnings.
- The District spent 98.4% of budgeted General Fund expenditures.
- At the end of fiscal year 2004, the calculated amount of Unspent Authorized Budget for the General Fund, sometimes referred to as the "Unspent Spending Authority," which represents the remaining unused Authorized Budget or Spending Authority is \$10 million or 3.8% of total General Fund revenues. This amount remains relatively the same as the prior year's Unspent Spending Authority.

Capital Assets and Debt Administration

Capital Assets: As of June 30, 2004, the District had invested \$157.8 million in capital assets, including school buildings, athletic facilities, buses and other vehicles, computers, and other equipment. This amount represents a net increase of \$43.1 million from last year, primarily due to the new construction and renovation projects in the District's ten-year Schools First renovation plan.

The following schedule presents capital asset balances, net of accumulated depreciation, for the fiscal year ended June 30, 2004, compared with balances as of June 30, 2003:

	2004			2003
	Government Activities	Business-Type Activities	Total	Total
Land and improvements	\$ 4,348,102	\$ -	\$ 4,348,102	\$ 4,156,500
Buildings and improvements	96,171,066	-	96,171,066	71,747,358
Vehicles, furniture and equipment	4,414,939	1,572,525	5,987,464	5,345,678
Construction-in-progress	51,331,434	-	51,331,434	33,498,377
Total	\$ 156,265,541	\$ 1,572,525	\$ 157,838,066	\$ 114,747,913

Additional information on the District's capital assets can be found in Note 5 to the basic financial statements.

Debt Administration: As of June 30, 2004, the District had \$5,460,000 in general obligation bonds and notes outstanding, of which \$1,445,000 is due within one year. The following table presents a summary of the District's outstanding long-term debt for the year ended June 30, 2004, with comparative information as of June 30, 2003:

	2004	2003
Capital loan notes	\$ 4,460,000	\$ 450,000
General obligation bonds	1,000,000	1,975,000
Total	\$ 5,460,000	\$ 2,425,000

State statutes currently limit the amount of general obligation debt a district may issue to five percent of its total assessed valuation. The current debt limitation for the District is \$396,815,952 which is substantially more than the District's outstanding general obligation debt.

Des Moines Independent Community School District

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004

In addition, the District's Iowa School Cash Anticipation warrants of \$10,200,000 are scheduled to mature in fiscal year 2005. Additional information about the District's debt can be found in Note 6 to the basic financial statements.

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:

- District enrollment declined from September 2003 to September 2004 by 266. Therefore, the total combined District cost for fiscal year 2006 will decline by approximately \$1.3 million.
- The School Board recently approved a reduction in the excess earnings percentage and the guaranteed earnings ratio for the Des Moines Teachers' Retirement Program.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Business and Finance Department, Des Moines Independent Community School District, 1801-16th Street, Des Moines, Iowa 50314-1992.

Des Moines Independent Community School District

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash and investments	\$ 39,359,315	\$ 1,142,351	\$ 40,501,666
Restricted cash	1,488,000	-	1,488,000
Investment, ISCAP	10,306,814	-	10,306,814
Property taxes receivable - current year	1,328,527	-	1,328,527
Property taxes receivable - succeeding year	96,308,035	-	96,308,035
Interest receivable	5,477	-	5,477
Other receivables, net of allowances for uncollectible of \$25,889	300,357	152,145	452,502
Due from other governments	18,091,710	55,981	18,147,691
Inventories	524,964	250,967	775,931
Prepaid expenses	202,103	-	202,103
Total current assets	167,915,302	1,601,444	169,516,746
Noncurrent assets:			
Bond issuance costs	23,870	-	23,870
Capital assets - nondepreciable	53,738,765	-	53,738,765
Capital assets - depreciable, net	102,526,776	1,572,525	104,099,301
Total capital assets	156,265,541	1,572,525	157,838,066
Total noncurrent assets	156,289,411	1,572,525	157,861,936
Total assets	\$ 324,204,713	\$ 3,173,969	\$ 327,378,682

See Notes to Basic Financial Statements.

	Governmental Activities	Business-Type Activities	Total
Liabilities			
Current liabilities:			
Accounts payable	\$ 8,169,996	\$ 59,096	\$ 8,229,092
Interest payable	5,462	-	5,462
General obligation bonds and notes	1,445,000	-	1,445,000
Accrued payroll	26,558,021	348,896	26,906,917
Other current liabilities	3,480,181	19,049	3,499,230
Due to other governments	2,774,464	19,885	2,794,349
Deferred revenue-succeeding year property taxes	96,308,035	-	96,308,035
Deferred revenue - other	2,246,445	-	2,246,445
Compensated absences	2,019,250	112,430	2,131,680
Special termination benefits	2,044,522	-	2,044,522
ISCAP warrant payable	10,200,000	-	10,200,000
Total current liabilities	155,251,376	559,356	155,810,732
Noncurrent liabilities:			
Retrospective insurance rating plan	897,901	-	897,901
Compensated absences	688,185	24,602	712,787
Special termination benefits	7,220,200	-	7,220,200
Bond premiums	21,417	-	21,417
General obligation bonds and notes	4,015,000	-	4,015,000
Total noncurrent liabilities	12,842,703	24,602	12,867,305
Total liabilities	168,094,079	583,958	168,678,037
Net Assets			
Invested in capital assets, net of related debt	150,807,994	1,572,525	152,380,519
Restricted for:			
Debt service	463,037	-	463,037
Donor-restricted purposes	3,547,404	-	3,547,404
Purpose restricted	983,417	-	983,417
Unrestricted	308,782	1,017,486	1,326,268
Total net assets	156,110,634	2,590,011	158,700,645
Total net assets and liabilities	\$ 324,204,713	\$ 3,173,969	\$ 327,378,682

Des Moines Independent Community School District

**Statement of Activities
Year Ended June 30, 2004**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
Instructional	\$ 196,440,822	\$ 12,994,023	\$ 38,584,997	\$ 1,983,820
Student services	19,304,468	-	252,166	-
Instructional support services	3,130,123	-	185,760	-
General administration	5,412,731	-	-	96,244
Central support services	4,665,921	-	-	-
Building administration	16,006,487	-	15,000	-
Business administration	2,246,641	974,375	-	-
Plant operation and maintenance	26,862,744	-	10,000	-
Student transportation	9,179,699	301,928	546,866	-
Noninstructional	2,412,415	91,139	-	389,176
AEA support	9,140,786	9,140,786	-	-
Interest on long-term debt	90,488	-	-	-
Total governmental activities	294,893,325	23,502,251	39,594,789	2,469,240
Business-type activities:				
School nutrition	11,685,044	4,469,991	7,534,112	-
Child care	3,887,289	3,558,507	-	-
Other	89,471	84,046	8,817	-
Total business-type activities	15,661,804	8,112,544	7,542,929	-
Total primary government	\$ 310,555,129	\$ 31,614,795	\$ 47,137,718	\$ 2,469,240
General revenues:				
Property taxes:				
Levied for general purposes				
Levied for management				
Levied for property, plant, and equipment				
Levied for playground				
Levied for debt service				
Sales tax, for capital projects				
State foundation aid				
Investment earnings				
Other local sources				
State sources				
Transfers				
Total general revenues				
Changes in net assets				
Net assets, beginning of year				
Net assets, end of year				

See Notes to Basic Financial Statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Totals
\$ (142,877,982)	\$ -	\$ (142,877,982)
(19,052,302)	-	(19,052,302)
(2,944,363)	-	(2,944,363)
(5,316,487)	-	(5,316,487)
(4,665,921)	-	(4,665,921)
(15,991,487)	-	(15,991,487)
(1,272,266)	-	(1,272,266)
(26,852,744)	-	(26,852,744)
(8,330,905)	-	(8,330,905)
(1,932,100)	-	(1,932,100)
-	-	-
(90,488)	-	(90,488)
(229,327,045)	-	(229,327,045)
-	319,059	319,059
-	(328,782)	(328,782)
-	3,392	3,392
-	(6,331)	(6,331)
(229,327,045)	(6,331)	(229,333,376)
74,059,381	-	74,059,381
6,572,485	-	6,572,485
676,558	-	676,558
1,186,643	-	1,186,643
5,249,666	-	5,249,666
30,279,709	-	30,279,709
131,649,151	-	131,649,151
539,591	-	539,591
1,440,272	-	1,440,272
2,290,871	-	2,290,871
(50,000)	50,000	-
253,894,327	50,000	253,944,327
24,567,282	43,669	24,610,951
131,543,352	2,546,342	134,089,694
\$ 156,110,634	\$ 2,590,011	\$ 158,700,645

Des Moines Independent Community School District

Balance Sheet
Governmental Funds
June 30, 2004

	General	Capital Projects Sales Tax	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and investments	\$ 29,494,556	\$ -	\$ 5,992,525	\$ 35,487,081
Restricted cash	-	1,488,000	-	1,488,000
Investment, ISCAP	10,306,814	-	-	10,306,814
Property taxes receivable - current year	1,123,434	-	205,093	1,328,527
Property taxes receivable - succeeding year	77,639,791	-	18,668,244	96,308,035
Interest receivable	5,477	-	-	5,477
Other receivables	26,494	-	12,033	38,527
Due from other funds	1,404,450	-	80,607	1,485,057
Due from other governments	11,827,713	6,263,997	-	18,091,710
Inventories	472,054	-	-	472,054
Prepaid items	96,165	-	16,439	112,604
Total assets	\$ 132,396,948	\$ 7,751,997	\$ 24,974,941	\$ 165,123,886
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 841,128	\$ 5,677,390	\$ 1,650,625	\$ 8,169,143
Accrued payroll	26,514,103	1,709	42,209	26,558,021
Special termination benefits	-	-	1,366,383	1,366,383
Matured interest payable	5,462	-	-	5,462
Other current liabilities	466,002	-	-	466,002
Due to other funds	-	1,404,450	80,607	1,485,057
Due to other governments	2,762,816	3,374	8,274	2,774,464
Deferred revenue	79,851,201	-	18,679,484	98,530,685
Compensated absences	259,093	-	-	259,093
ISCAP warrant payable	10,200,000	-	-	10,200,000
Total liabilities	120,899,805	7,086,923	21,827,582	149,814,310
Fund balances:				
Reserved for:				
Capital outlay	-	-	47,244	47,244
Inventories	472,054	-	-	472,054
Prepaid items	96,165	-	16,439	112,604
Purpose restricted	983,417	-	-	983,417
Restricted for East High School	-	1,110,000	-	1,110,000
Restricted for Greenwood Elementary	-	378,000	-	378,000
Permanent trusts	-	-	9,878	9,878
Debt service	-	-	463,037	463,037
Unreserved:				
Designated	639,952	-	-	639,952
Undesignated, reported in:				
General Fund	9,305,555	-	-	9,305,555
Special revenue funds	-	-	2,610,761	2,610,761
Capital projects funds	-	(822,926)	-	(822,926)
Total fund balances	11,497,143	665,074	3,147,359	15,309,576
Total liabilities and fund balances	\$ 132,396,948	\$ 7,751,997	\$ 24,974,941	\$ 165,123,886

See Notes to Basic Financial Statements.

Des Moines Independent Community School District

**Reconciliation of Total Governmental Fund Balances to Net Assets
of Governmental Activities**

June 30, 2004

Total governmental fund balances \$ 15,309,576

Amount reported for governmental activities in the statement of net assets are different because:

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds:

Land	\$ 2,407,331	
Construction-in-progress	51,331,434	
Land improvements	7,100,650	
Buildings and improvements	161,114,990	
Vehicles, furniture and equipment	11,363,680	
Accumulated depreciation	<u>(77,187,951)</u>	156,130,134

Internal service funds are used by management to charge the costs of certain activities, such as self-insurance benefits for employees and print shop services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

1,358,443

Certain liabilities, including bonds and notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. These liabilities at year-end consist of:

Compensated absences	(2,433,732)	
General obligation bonds and notes payable	(5,460,000)	
Bond issuance costs	23,870	
Bond premiums	(21,417)	
Retrospective insurance rating plan	(897,901)	
Special termination benefit	<u>(7,898,339)</u>	<u>(16,687,519)</u>
Net assets of governmental activities		<u><u>\$ 156,110,634</u></u>

See Notes to Basic Financial Statements.

Des Moines Independent Community School District

Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 Year Ended June 30, 2004

	General	Capital Projects Sales Tax	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 74,059,381	\$ -	\$ 13,685,352	\$ 87,744,733
Other local sources	11,392,846	2,676,832	672,392	14,742,070
Sales tax, for capital projects	-	30,279,709	-	30,279,709
Investment earnings	319,006	670	219,915	539,591
Intermediate sources	6,835,392	-	-	6,835,392
State foundation aid	131,649,151	-	-	131,649,151
State sources	21,471,505	-	101,978	21,573,483
Federal sources	20,949,265	235,543	225,000	21,409,808
Student activities	72,469	-	3,013,714	3,086,183
Total revenues	266,749,015	33,192,754	17,918,351	317,860,120
Expenditures:				
Current:				
Instructional	177,811,288	-	7,821,078	185,632,366
Student services	18,955,411	-	4,546	18,959,957
Instructional support services	3,030,670	-	50,659	3,081,329
General administration	3,462,996	-	1,732,652	5,195,648
Central support services	4,147,983	-	410,033	4,558,016
Building administration	14,567,811	-	510,255	15,078,066
Business administration	2,240,664	-	7,306	2,247,970
Plant operation and maintenance	26,512,558	-	350,301	26,862,859
Student transportation	7,909,216	-	616,645	8,525,861
Noninstructional	101,247	-	569,109	670,356
AEA support	9,140,786	-	-	9,140,786
Capital outlay	-	36,991,411	11,683,746	48,675,157
Debt service:				
Principal retirement	-	-	1,020,000	1,020,000
Interest	-	-	90,488	90,488
Bond issuance costs	-	-	25,344	25,344
Total expenditures	267,880,630	36,991,411	24,892,162	329,764,203
(Deficiency) of revenues over expenditures	(1,131,615)	(3,798,657)	(6,973,811)	(11,904,083)
Other financing sources (uses):				
Proceeds from sale of capital assets	23,665	-	-	23,665
Issuance of long term debt	-	-	4,100,000	4,100,000
Premiums	-	-	21,939	21,939
Transfers in	-	948,176	119,769	1,067,945
Transfers out	(59,831)	-	(1,058,114)	(1,117,945)
Total other financing sources (uses)	(36,166)	948,176	3,183,594	4,095,604
Net changes in fund balances	(1,167,781)	(2,850,481)	(3,790,217)	(7,808,479)
Fund balances, beginning of year	12,664,924	3,515,555	6,937,576	23,118,055
Fund balances, end of year	\$ 11,497,143	\$ 665,074	\$ 3,147,359	\$ 15,309,576

See Notes to Basic Financial Statements.

Des Moines Independent Community School District

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2004**

Net change in fund balances - total governmental funds \$ (7,808,479)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital outlay	\$ 46,974,101	
Depreciation expense	(3,993,252)	
Proceeds from sale of capital assets	(23,665)	
Loss on sale of capital assets	(179,246)	
	42,777,938	42,777,938

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs and premiums, whereas these amounts are deferred in and amortized in the statement of activities:

Repayment of bond and note principal	1,020,000	
Bond issuance costs	25,344	
Issuance of long term debt	(4,100,000)	
Premiums on bond issuance	(21,939)	
Amortization of premiums and bond issuance costs	(952)	
	(3,077,547)	(3,077,547)

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 governmental funds:

Decrease in compensated absences	120,497	
Increase in retrospective insurance rating plan	(303,455)	
Increase in special termination benefits	(7,898,339)	
	(8,081,297)	(8,081,297)

Internal service funds are used by management to charge the costs of certain activities, such as self insurance benefits for employees and print shop services, to individual funds. The change in net assets in the internal service funds is reported with governmental activities in the statement of activities.

	756,667	
Change in net assets of governmental activities.	\$ 24,567,282	

Des Moines Independent Community School District

**Statement of Net Assets
Proprietary Funds
June 30, 2004**

	Nonmajor Enterprise Funds	Internal Service Fund
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,142,351	\$ 3,872,234
Other receivables, net of allowances for uncollectible of \$25,889	152,145	261,830
Due from other governments	55,981	-
Due from other funds	17,010	106,155
Inventories	250,967	52,910
Prepaid expenses	-	89,499
Total current assets	1,618,454	4,382,628
Noncurrent assets, depreciable capital assets, net	1,572,525	135,407
Total assets	\$ 3,190,979	\$ 4,518,035
Liabilities		
Current liabilities:		
Accounts payable	\$ 59,096	\$ 853
Accrued payroll	348,896	-
Other current liabilities	19,049	3,014,179
Due to other funds	17,010	106,155
Due to other governments	19,885	-
Deferred revenue	-	23,795
Compensated absences	112,430	7,673
Total current liabilities	576,366	3,152,655
Noncurrent liabilities, compensated absences	24,602	6,937
Total liabilities	600,968	3,159,592
Net Assets		
Invested in capital assets, net of related debt	1,572,525	135,407
Unrestricted	1,017,486	1,223,036
Total net assets	2,590,011	1,358,443
Total liabilities and net assets	\$ 3,190,979	\$ 4,518,035

See Notes to Basic Financial Statements.

Des Moines Independent Community School District

**Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2004**

	Nonmajor Enterprise Funds	Internal Service Fund
Operating revenues:		
Student activities	\$ 31,716	\$ -
Charges for services:		
Employee benefits	-	38,345,111
Sale of food	4,461,979	-
Child care	3,554,721	-
Miscellaneous	64,128	334,812
Total operating revenues	8,112,544	38,679,923
Operating expenses:		
Student services	15,470,839	-
Depreciation	187,003	9,713
Community services	3,962	-
Employee benefits	-	37,611,328
Miscellaneous	-	302,215
Total operating expenses	15,661,804	37,923,256
Operating income (loss)	(7,549,260)	756,667
Nonoperating revenues:		
Other local sources	112,694	-
State sources	145,806	-
Federal sources	7,284,429	-
Total nonoperating revenues	7,542,929	-
Income (loss) before transfers	(6,331)	756,667
Transfers in	50,000	-
Changes in net assets	43,669	756,667
Total net assets, beginning of year	2,546,342	601,776
Total net assets, end of year	\$ 2,590,011	\$ 1,358,443

See Notes to Basic Financial Statements.

Des Moines Independent Community School District

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2004

	Nonmajor Enterprise Funds	Internal Service Funds
Cash Flows From Operating Activities:		
Cash received from user charges	\$ 8,180,596	\$ 38,571,570
Cash payments to employees for services	(9,140,913)	(210,802)
Cash payments to suppliers for goods and services	(5,045,358)	(39,060,310)
Net cash (used in) operating activities	(6,005,675)	(699,542)
Cash Flows From Noncapital Financing Activities:		
Payments from other funds	(6,120)	106,155
Payments to other funds	6,120	(106,155)
Transfers from other funds	50,000	-
Nonoperating grants and donations received	6,763,582	-
Net cash provided by noncapital financing activities	6,813,582	-
Cash Flows From Capital and Related Financing Activities, acquisition of capital assets		
	(363,811)	(145,120)
Net increase (decrease) in cash and cash equivalents	444,096	(844,662)
Cash and Cash Equivalents, beginning of year	698,255	4,716,896
Cash and Cash Equivalents, end of year	\$ 1,142,351	\$ 3,872,234
Reconciliation of Operating (Loss) Income to Net Cash (Used in)		
Operating Activities:		
Operating (loss) income	\$ (7,549,260)	\$ 756,667
Adjustments to reconcile operating (loss) income to net cash (used in) operating activities:		
Depreciation	187,003	9,713
Commodities used	779,347	-
Changes in assets and liabilities:		
Receivables	92,877	(130,476)
Inventories	254,483	(3,045)
Prepaid expenses	-	(87,918)
Accounts payable and due to other governments	31,472	15,717
Deferred revenue	-	23,795
Accrued liabilities	242,720	(3,078)
Other current liabilities	(44,317)	(1,280,917)
Net cash (used in) operating activities	\$ (6,005,675)	\$ (699,542)
Noncash Noncapital Financing Activities, commodities received from the U.S. Department of Agriculture		
	\$ 779,347	\$ -
Noncash Capital and Related Financing Activities, contribution of capital assets from governmental activities		
	-	7,120

See Notes to Basic Financial Statements.

Des Moines Independent Community School District

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2004

	Pension Trust	Private-Purpose Trust	Agency
Assets			
Cash and investments	\$ 210,839,313	\$ 716,343	\$ 270,602
Interest receivable	2,437,030	5,647	-
Total assets	\$ 213,276,343	\$ 721,990	\$ 270,602
Liabilities			
Accounts payable	\$ -	\$ 850	\$ 16,880
Due to other governmental units	-	-	253,722
Total liabilities	-	850	\$ 270,602
Net Assets			
Held in trust for:			
Employees' pension benefits	213,276,343	-	
Scholarships	-	721,140	
Total net assets	213,276,343	721,140	
Total liabilities and net assets	\$ 213,276,343	\$ 721,990	

See Notes to Basic Financial Statements.

Des Moines Independent Community School District

Statement of Changes in Fiduciary Net Assets
 Fiduciary Funds
 For the Year Ended June 30, 2004

	Pension Trust	Private- Purpose Trust
Additions:		
Contributions:		
Employer	\$ 1,932,239	\$ -
Employee	1,724,842	-
Private source	-	32,755
Investment earnings	7,934,986	6,423
Total additions	11,592,067	39,178
Deductions:		
Benefit payments	11,600,152	-
Resignation refunds	81,782	-
Death settlements	187,809	-
Scholarship awarded	-	26,608
Administrative costs	294,289	-
Other	-	22,499
Total deductions	12,164,032	49,107
Changes in net assets	(571,965)	(9,929)
Net assets, beginning of year	213,848,308	731,069
Net assets, end of year	\$ 213,276,343	\$ 721,140

See Notes to Basic Financial Statements.

Des Moines Independent Community School District

Notes to Basic Financial Statements

Note 1. Reporting Entity, Measurement Focus, Basis of Accounting and Financial Statement Presentation and Significant Accounting Policies

The financial statements of the Des Moines Independent Community School District (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the District's accounting policies are described below.

Reporting Entity

The Board of Education (the Board) is organized under the Iowa Code. Management of the District is independent of other state or local governments. The County Treasurer collects taxes for the District, but exercises no control over its expenditures.

The membership of the Board consists of seven members elected by the public. Under existing statutes, the Board's duties and powers include, but are not limited to, the acquisition, maintenance and disposition of school property; the development and adoption of a school program; and the establishment, organization, and operation of schools.

The Board also has broad financial responsibilities, including the approval of the annual budget, and the establishment of a system of accounting and budgetary controls. The District's major operations include education, pupil transportation, construction and maintenance of District facilities and food service.

The District is a primary government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. The financial statements of the District include all District operations required to be included in accordance with Governmental Accounting Standards Board (GASB) pronouncements concerning the reporting entity. 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 GASB has set forth criteria to be considered in determining financial accountability. These criteria are: a) 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; and b) fiscal dependency. In addition, the GASB issued Statement No. 39, in May 2002, which sets forth additional criteria to determine whether certain organizations for which the District is not financially accountable should be reported as component units based on the nature and significance of their relationship with the District. These criteria include 1) the economic resources being received or held by the separate organization being entirely or almost entirely for the direct benefit of the District, its component units, or its constituents, 2) the District being entitled to, or having the ability to otherwise access, a majority of the economic resources received or held by the District and 3) the economic resources received or held by an individual organization that the District is entitled to, or has the ability to otherwise access, are significant to the District. The District evaluated certain alumni foundations and determined those foundations to not be significant to the District as a whole. Therefore, the District has no component units, which meet the GASB criteria and should be included in these basic financial statements. In addition, the District is not aware of any entity, which would exercise such oversight over it, which would result in the District being considered a component unit of that entity.

Des Moines Independent Community School District

Notes to Basic Financial Statements

Note 1. Reporting Entity, Measurement Focus, Basis of Accounting and Financial Statement Presentation and Significant Accounting Policies (Continued)

District-Wide and Fund Financial Statements: The District-wide financial statements (i.e., the statement of net assets and the statement of activities) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. Interfund activity has been eliminated. These statements are to distinguish between the governmental and business-type activities of the District. Governmental activities normally are supported by taxes and intergovernmental revenues, and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District's business-type activities are: school nutrition, child care, automotive, home remodeling, and wellness center.

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

The District applies restricted resources first when an expense is incurred for the purpose for which both restricted and unrestricted net assets are available. Depreciation expense can be specifically identified by function and is included in the direct expenses of each function. Interest on general long-term debt is considered an indirect expense and is reported separately on the statement of activities.

Separate financial statements are provided for governmental, proprietary and fiduciary funds. Fiduciary funds are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the governmental fund financial statements.

The internal service funds are presented in the proprietary fund financial statements. Because the principal users of the internal services are the District's governmental activities, the financial statements of the internal service funds are included in the governmental activities column when presented in the District-wide financial statements. The cost of these services is reported in the appropriate functional activity.

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 revenue of the District's proprietary funds are charges to customers for service. Operating expenses for the proprietary funds include the cost of services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

In applying the provisions of GASB Statement No. 20, the District adopted all applicable GASB pronouncements as well as all Financial Accounting Standards Board (FASB) statements for enterprise funds issued on or before November 30, 1989, with the exception of those pronouncements that conflict with GASB pronouncements. The District has elected not to adopt FASB statements and interpretations issued after November 30, 1989.

Des Moines Independent Community School District

Notes to Basic Financial Statements

Note 1. Reporting Entity, Measurement Focus, Basis of Accounting and Financial Statement Presentation and Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-Wide Financial Statements - The District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Fund Financial Statements - 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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be available if collected within 60 days of fiscal year-end. State revenue is recognized in the year to which it applies. Grants and similar awards are recognized as revenue as soon as all eligibility requirements have been met. Grants and other revenue is considered available if collected within one year. Unearned revenues arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to meeting all eligibility requirements.

Property taxes are certified (levied) on July 1 by District governments based on the assessed valuation of property as of each January 1, become a lien against the property on July 1, and are due and collectible in installments on September 30 and March 31. Property taxes become delinquent on October 1 and April 1. Current year delinquent property taxes receivable represent the estimated amounts remaining to be collected on taxes levied through June 30. The succeeding year property taxes receivable represent taxes certified by the Board of Education to be collected in the next fiscal year for purposes set out in the budget for the next fiscal year. By statute, the Board of Education is required to certify its budget to the County Auditor by April 15 of each year for the subsequent fiscal year. For accounting and financial reporting purposes, an enforceable legal claim is deemed to exist upon certification by the County Auditor. However, the property taxes certified are intended to finance the subsequent fiscal year. Accordingly, the succeeding year property taxes receivable have been recorded and have been deferred and will not be recognized as revenue until the year for which it is levied. For the fiscal year ending June 30, 2004, the amount of deferred revenue for the succeeding year is \$96,308,035 (\$77,639,791 General Fund).

The District reports the following major governmental funds:

General Fund - The General Fund accounts for all resources used to finance District maintenance and operation, except those required to be accounted for in other funds.

Capital Projects Fund – Sales Tax – The Sales Tax Fund, a capital projects fund, primarily accounts for all sales tax resources used in the acquisition and construction of capital facilities and other fixed assets, with the exception of those that are financed through proprietary funds.

Des Moines Independent Community School District

Notes to Basic Financial Statements

Note 1. Reporting Entity, Measurement Focus, Basis of Accounting and Financial Statement Presentation and Significant Accounting Policies (Continued)

The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The proprietary funds are presented as totals for the enterprise and internal service funds; the District does not have any major enterprise funds. Fiduciary funds are reported by fund type.

Significant Accounting Policies:

Investments - The investments are stated at fair value. Short-term investments are reported at cost which approximates fair value. Securities traded in a national or international exchange are valued at the last reported sales price at the current exchange rates. There are no investments in a fund earning income that is recorded in another fund.

The District has invested in Guaranteed Interest Contracts (GIC) under the Iowa School Cash Anticipation Program (ISCAP). The ISCAP makes proceeds of short-term ISCAP warrants notes available in anticipation of the receipt of grant funds and ad valorem tax receipts in an amount legally available and sufficient to cover anticipated cash flow needs in the General Fund.

Investment earnings - Investment earnings are composed of interest, dividends and net changes in the fair value of applicable investments.

Receivables - All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles, if applicable.

Inventories - Inventories are valued at the moving average cost for purchased items and contributed value (fair value at the date received) for government commodities and other donated items. Inventories are recorded as expenses when consumed in the District-wide financial statements and proprietary fund financial statements. In the governmental fund financial statements, inventories are accounted for using the consumption method whereby inventory acquisitions are recorded in inventory accounts when purchased and are charged to operations when consumed or sold. Therefore, a reservation of governmental fund balance is required.

Prepaid expenses - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the District-wide and fund financial statements.

Capital assets - Capital assets which include land; land improvements; buildings and improvements; vehicles, furniture, equipment; and construction-in-progress are reported in the District-wide financial statements and the proprietary fund financial statements.

Capital assets are defined by the District as assets with an initial, individual cost of \$5,000 or more (\$1,000 or more for the School Nutrition Fund) and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair value at the date of donation.

Des Moines Independent Community School District

Notes to Basic Financial Statements

Note 1. Reporting Entity, Measurement Focus, Basis of Accounting and Financial Statement Presentation and Significant Accounting Policies (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

Land improvements	20 years
Buildings and improvements	20 - 50 years
Vehicles, furniture and equipment	5 - 15 years

The District's collection of library books and other similar assets are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to District policy that requires proceeds from the sale of these items, if any, to be used to acquire other collection items.

Cash flows - For purpose of the cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Compensated absences - The District's employee vacation and sick leave policies generally provide for granting vacation and sick leave with pay. Accrued sick leave is earned by all full-time employees at the rate of 15 days annually. Sick leave balances are not paid upon termination of employment. Full-time employees earn vacation in accordance with their employment agreement. The current and long-term liabilities for accumulated vacation are accrued when incurred in the District-wide and proprietary funds' financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations, and retirements.

Post employment benefits - The District provides health insurance coverage to eligible employees who retire prior to age 65 on the same terms as active employees until the retiree reaches 65 years of age, at which time the District ceases providing this benefit. The District finances the health benefits on a pay-as-you-go basis in the governmental fund financial statements.

Long-term obligations - In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities on the statement of net assets. As of June 30, 2004, the District did not have any long-term obligations related to its business-type activities or proprietary funds. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, through current year operations. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Des Moines Independent Community School District

Notes to Basic Financial Statements

Note 1. Reporting Entity, Measurement Focus, Basis of Accounting and Financial Statement Presentation and Significant Accounting Policies (Continued)

Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for expenditures or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The Management Fund, a nonmajor governmental fund, ended the year with a negative fund balance of \$1,601,379, due to an increased number of early retirements and the increase in health insurance costs. An increase in the property tax levy for fiscal year 2005 is intended to eliminate this negative fund balance. The Wellness Center Fund, a nonmajor enterprise fund, ended the year with a negative fund balance of \$17,010. An increase in the number of District and nonDistrict enrollees to the Center is expected to eliminate this fund's deficit balance for fiscal year 2005. The Collage Fund, an internal service fund, ended the year with a negative fund balance of \$7,533. The Collage Fund will continue to support the peripheral instructional needs of the District's instructional staff during fiscal year 2005. An increase in the hours of operation and services provided will generate additional revenue that is expected to gradually eliminate this fund's deficit.

Net assets - Net assets represent the difference between assets and liabilities in the District-wide financial statements. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net assets invested in capital assets, net of related debt, excludes unspent debt proceeds. Net assets are reported as restricted in the District-wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Interfund activity - Any residual balances outstanding between the governmental activities and the business-type activities are reported in the District-wide financial statements as "internal balances".

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are eliminated in the statement of activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 2. Legal Compliance

The District operates within the budget requirements for school districts as specified by state law and as prescribed by the Iowa Department of Management.

The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is the functional area for budgeted governmental, enterprise, and private purpose trust funds in total, rather than by individual fund type. Formal and legal budgetary control is based on four major classes of expenditures known as functional areas. These four functional areas are instruction, support services, noninstructional programs and other expenditures. The District adopts its annual program budget on a GAAP basis of accounting.

Des Moines Independent Community School District

Notes to Basic Financial Statements

Note 2. Legal Compliance (Continued)

As allowed by GASB Statement No. 41, *Budgetary Comparison Schedules – Perspective Differences*, the District presents budgetary comparison as required supplementary information based on the program structure as required by state statute for its legally adopted budget.

Note 3. Cash and Cash Equivalents and Investments

The captions and amounts of cash and cash equivalents and investments on the balance sheets in the District's individual major funds and nonmajor and fiduciary funds in the aggregate consist of the following:

	General Fund	Capital Projects - Sales Tax Fund	Nonmajor and Other Fiduciary Funds	Total
Cash and certificate of deposit book balance	\$ 14,489,456	\$ -	\$ 9,157,974	\$ 23,647,430
Restricted cash	-	1,488,000	-	1,488,000
Petty cash and change fund	5,100	-	9,514	14,614
Total deposits	14,494,556	1,488,000	9,167,488	25,150,044
ISCAP investment	10,306,814	-	-	10,306,814
Other investments	15,000,000	-	213,665,880	228,665,880
Total	\$ 39,801,370	\$ 1,488,000	\$ 222,833,368	\$ 264,122,738

As of June 30, 2004, the carrying amount of the District's deposits totaled \$25,135,430 (including \$18,490,000 of certificates of deposit and excluding \$14,614 of petty cash) with bank balances of \$29,768,788, all of which were entirely covered by either federal depository insurance or by the State Sinking Fund, in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The Iowa Code authorizes the District to invest public funds not currently needed for operating expenses in obligations of the United States government, its agencies and instrumentalities; certificates of deposits or other evidence of deposit at federally insured depository institutions approved by the Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts.

The above description of authorized investments does not apply to the Des Moines Teachers' Retirement System (DMTRS) Pension Trust Fund, whose investments are governed by the underlying Plan document, or investments donated to the District. As of June 30, 2004, all District investments in corporate bonds and stocks were held by the DMTRS or represent stock donated to special revenue and fiduciary funds. All the District investments, other than donated investments, are held in securities backed by the U.S. government or its agencies.

Investments are categorized into these three categories of custodial credit risk:

- Insured or registered in the District's name, or securities held by the District or its agent in the District's name.
- Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name.
- Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the District's name.

Des Moines Independent Community School District

Notes to Basic Financial Statements

Note 3. Cash and Cash Equivalents and Investments (Continued)

As of June 30, 2004, the District's investment balances were as follows:

	Category			Fair Value
	1	2	3	
U.S. Government securities	\$ 102,974,473	\$ 1,607,989	\$ -	\$ 104,582,462
Corporate equities	40,123,104	-	-	40,123,104
Corporate equities - donated	1,218,578	-	-	1,218,578
Corporate obligations and other	67,741,736	-	-	67,741,736
Total investments	\$ 212,057,891	\$ 1,607,989	\$ -	213,665,880
Investments not subject to risk categorization, guaranteed interest contract and Iowa Joint Investment Trust				25,306,814
				\$ 238,972,694

The District's investments during the year did not vary substantially from those at year-end in amounts or level of risk.

Note 4. Interfund Receivables/Payables and Transfers

The following is a schedule of transfers as included in the basic financial statements of the District:

	Due From Other Funds	Due To Other Funds
Major Funds:		
General Fund	\$ 1,404,450	\$ -
Sales Tax Fund	-	1,404,450
Nonmajor governmental funds	80,607	80,607
Nonmajor enterprise funds	17,010	17,010
Internal service funds	106,155	106,155
	\$ 1,608,222	\$ 1,608,222
	Transfers In	Transfers Out
Major Funds:		
General Fund	\$ -	\$ 59,831
Sales Tax Fund	948,176	-
Nonmajor governmental funds	119,769	1,058,114
Nonmajor enterprise funds	50,000	-
	\$ 1,117,945	\$ 1,117,945

Interfund balances result from the time lag between the dates that 1) interfund goods or services are provided or reimbursable expenditures occur, 2) transactions are recorded and 3) payments between funds are made.

Des Moines Independent Community School District

Notes to Basic Financial Statements

Note 5. Capital Assets

A summary of capital asset activity for the year ended June 30, 2004 follows:

Governmental Activities	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 2,387,511	\$ 19,820	\$ -	\$ 2,407,331
Construction-in-progress	33,498,377	42,751,607	24,918,550	51,331,434
Total capital assets, not being depreciated	35,885,888	42,771,427	24,918,550	53,738,765
Capital assets, being depreciated:				
Land improvements	6,695,574	405,076	-	7,100,650
Buildings and improvements	133,779,585	27,335,405	-	161,114,990
Vehicles, furniture and equipment	11,973,620	1,525,863	1,957,403	11,542,080
Total capital assets being depreciated	152,448,779	29,266,344	1,957,403	179,757,720
Less accumulated depreciation for:				
Land improvements	(4,926,585)	(233,294)	-	(5,159,879)
Buildings and improvements	(62,032,227)	(2,911,697)	-	(64,943,924)
Vehicles, furniture and equipment	(8,023,659)	(857,974)	(1,754,492)	(7,127,141)
Total accumulated depreciation	(74,982,471)	(4,002,965)	(1,754,492)	(77,230,944)
Total capital assets, being depreciated, net	77,466,308	25,263,379	202,911	102,526,776
Governmental activities capital assets, net	\$ 113,352,196	\$ 68,034,806	\$ 25,121,461	\$ 156,265,541
Business-Type Activities				
Capital assets, being depreciated:				
Vehicles, furniture and equipment	\$ 3,315,945	\$ 363,811	\$ 167,797	\$ 3,511,959
Less accumulated depreciation	(1,920,228)	(187,003)	(167,797)	(1,939,434)
Business-type activities capital assets, net	\$ 1,395,717	\$ 176,808	\$ -	\$ 1,572,525

Des Moines Independent Community School District

Notes to Basic Financial Statements

Note 5. Capital Assets (Continued)

Depreciation expense was charged to the District's functions as follows:

Governmental activities:	
Instructional	\$ 3,169,086
Noninstructional	169,712
Central support services	40,226
Plant operation and maintenance	42,842
Student transportation	581,099
Total	<u><u>\$ 4,002,965</u></u>
Business-type activities, school nutrition	<u><u>\$ 187,003</u></u>

Note 6. Noncurrent Liabilities and Notes Payable

On January 28, 2004, the District issued \$1,000,000 of anticipatory warrants through the Iowa School Cash Anticipation Program (ISCAP). The warrants mature on January 28, 2005, with a stated interest rate of 2%. On June 30, 2004, the District issued \$9,200,000 of anticipatory warrants through the ISCAP. The warrants mature on June 30, 2005, with a stated interest rate of 3%. The warrants are outstanding as of June 30, 2004. The purpose of the short-term debt is to provide liquidity for governmental operations financed by property taxes, which are collected in semiannual payments due September 30 and March 31.

	Beginning Balance	Additions	Reductions	Ending Balance
Iowa School Cash Anticipation Program:				
Warrants - June 30, 2003	\$ 5,000,000	\$ -	\$ 5,000,000	\$ -
Warrants - January 28, 2004	-	1,000,000	-	1,000,000
Warrants - June 30, 2004	-	9,200,000	-	9,200,000
Short-term liabilities	<u><u>\$ 5,000,000</u></u>	<u><u>\$ 10,200,000</u></u>	<u><u>\$ 5,000,000</u></u>	<u><u>\$ 10,200,000</u></u>

On March 1, 1999, the District issued \$7,315,000 of general obligation bonds, with interest rates varying from 3.60% to 3.85%, for the purpose of retiring bonds that had been issued in 1990 and 1991 and to finance school construction. As of June 30, 2004, the general obligation bond liability was \$1,000,000. The maturity date for this bond issue is 2005.

On March 13, 2002, the District issued \$450,000 of general obligation capital loan notes, with interest varying from 2.0% to 4.2%, for the purpose of installing energy-efficient heating and cooling systems. As of June 30, 2004, the general obligation capital loan notes liability was \$360,000. The maturity date for the notes is 2011.

On December 1, 2003, the District issued \$1,000,000 of qualified zone academy bonds for the purpose of remodeling projects at Weeks Elementary School. As of June 30, 2004, the qualified zone academy bonds liability was \$1,000,000. The District will make annual payments into the debt sinking fund with the total balance of the loan maturing in 2011.

On April 20, 2004, the District issued \$3,100,000 of general obligation capital loan notes, with interest varying from 2.50% to 3.75%, to finance energy improvements within school facilities of the District. As of June 30, 2004, the general obligation capital notes liability was \$3,100,000. The maturity date for the notes is 2011.

Des Moines Independent Community School District

Notes to Basic Financial Statements

Note 6. Noncurrent Liabilities and Notes Payable (Continued)

Annual debt service requirements to maturity as of June 30, 2004 are summarized as follows:

Year Ending June 30:	Governmental Activities		
	Principal	Interest	Total
2005	\$ 1,445,000	\$ 158,810	\$ 1,603,810
2006	470,000	100,768	570,768
2007	485,000	86,913	571,913
2008	490,000	71,898	561,898
2009	510,000	56,348	566,348
2010-2011	2,060,000	59,598	2,119,598
Total	\$ 5,460,000	\$ 534,335	\$ 5,994,335

As of June 30, 2004, the District did not exceed its legal debt margin, computed as follows:

Total assessed valuation	<u>\$ 7,936,319,048</u>
Debt limit of 5% of total assessed valuation	\$ 396,815,952
Amount of debt applicable to debt limit, total general obligation bonded debt	<u>5,460,000</u>
Excess of debt limit over bonded debt issued, legal debt margin	<u>\$ 391,355,952</u>

Noncurrent liability activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds and notes payable	\$ 2,380,000	\$ 4,100,000	\$ 1,020,000	\$ 5,460,000	\$ 1,445,000
Retrospective insurance rating plan	594,446	825,253	521,798	897,901	-
Compensated absences	2,822,170	1,858,521	1,973,256	2,707,435	2,019,250
Long-term liabilities	<u>\$ 5,796,616</u>	<u>\$ 6,783,774</u>	<u>\$ 3,515,054</u>	<u>\$ 9,065,336</u>	<u>\$ 3,464,250</u>
Business-type activities,					
compensated absences	<u>\$ 137,643</u>	<u>\$ 115,564</u>	<u>\$ 116,175</u>	<u>\$ 137,032</u>	<u>\$ 112,430</u>

Compensated absences are generally liquidated by the General Fund, and the retrospective rating plan liability is liquidated by the Management Fund, a nonmajor governmental fund.

Des Moines Independent Community School District

Notes to Basic Financial Statements

Note 7. Special Termination Benefits

The District offered a special termination benefit to certified teachers and administrators that allows for them to use their accumulated sick leave benefit and annual special leave to first apply to payment of health insurance until they reach the age of 65 and the amount remaining is paid out over five years as a special termination benefit. As of June 30, 2004, the District has \$1,366,383 accrued in the Management Fund, as it is considered due, and an additional \$7,898,339 recorded in the government-wide financial statements. As the intent of the District was to create a special termination benefit, which was offered for a short period of time, the benefit is treated in accordance with NCGAI 8 as it does not meet the requirements of a postemployment benefit.

Note 8. Commitments and Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the District's counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District.

As of June 30, 2004, the District was involved in several construction projects with an estimated cost to complete the construction projects of \$18,433,000.

Note 9. Risk Management

The District has chosen to establish a risk financing fund for risks associated with the self-insurance plan for medical, dental, and vision benefits. The risk financing fund is accounted for as an internal service fund where assets are set aside for claim settlements. The total charge allocated to each of the funds (the allocation is based upon the percentage of each fund's current year payroll of the District) is calculated using trends in actual claims experience. Losses on medical claims are limited through the purchase of stop-loss insurance to \$75,000 per accident or disease, and 120% of actuarially projected claims for the District in total.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported (IBNR) which represent estimates of the eventual loss on claims arising prior to year-end. Claims liabilities are reported in the financial statements in other current liabilities. Changes in the balances of claims liabilities during the past two fiscal years are as follows:

	Year Ended June 30,	
	2004	2003
Unpaid claims, beginning of year	\$ 4,280,198	\$ 5,265,101
Current year claims and changes in estimates	18,483,930	18,297,442
Claim payments	(19,749,949)	(19,282,345)
Unpaid claims, end of year	<u>\$ 3,014,179</u>	<u>\$ 4,280,198</u>

Des Moines Independent Community School District

Notes to Basic Financial Statements

Note 9. Risk Management (Continued)

The District self insures its workers' compensation exposures. Claims which are due and payable are recorded in the Management Fund, a nonmajor governmental fund. It is estimated that there are no claims that have been incurred but not reported. Liabilities are reported in the financial statements in accounts payable. Changes in the balances of claims liabilities during the past two fiscal years are as follows:

	Year Ended June 30,	
	2004	2003
Unpaid claims, beginning of year	\$ 148,740	\$ 275,859
Current year claims and changes in estimates	1,292,835	1,425,622
Claim payments	(1,231,499)	(1,552,741)
Unpaid claims, end of year	<u>\$ 210,076</u>	<u>\$ 148,740</u>

The District's general liability and automobile liability policies are written under a retrospective rating plan where final premium costs are within a specified minimum and maximum premium. For the policy year ended June 30, 2004, various liability claims remain unsettled; therefore, the District has accrued a liability for the maximum potential additional premium that could be payable under the retrospective rating plan of \$897,901. The liability is recorded in the District-wide financial statements.

The District continues to carry commercial insurance for all other risks of loss. The District has a \$100,000 deductible on property insurance and a \$500 deductible on auto insurance for automobiles specifically used for driver's education. During the three-year period ended June 30, 2004, the District had no settlements in excess of its insurance coverage.

Note 10. Retirement Systems

Iowa Public Employees' Retirement System:

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. All District employees, other than teachers and administrators, participate in IPERS. Teachers and administrators may choose to participate in the Des Moines Teachers' Retirement System in lieu of IPERS.

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. Details of the plan are provided on a system-wide basis.

The annual valuation of liabilities under the plan is calculated using the entry age normal cost method. This method requires the calculation of an unfunded actuarial accrued liability which was \$2,176,468,067 as of June 30, 2004.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered salaries. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$7,840,789; \$7,815,232 and \$7,779,348, respectively, equal to the required contributions for each year.

Des Moines Independent Community School District

Notes to Basic Financial Statements

Note 10. Retirement Systems (Continued)

Des Moines Teachers' Retirement System:

The Des Moines Teachers' Retirement System is a single employer defined contribution plan that provides pension benefits for all eligible District employees. The Des Moines Teachers' Retirement System was established as of July 1, 1953, in accordance with Sections 294.8 through 294.10 of the Code of Iowa. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees who possess professional qualifications as a requirement for their position of employment, such as a teacher's certificate to be a teacher, are permitted to participate from the date of their employment. There are 1,694 active and retired participants as of June 30, 2004. The plan requires the employees to contribute a varying percentage of their base pay, from 4.31% to 7.14%, with the percentage actuarially determined based on the age of the employee upon entrance into the plan. The District's contribution is to be 112% of the amount contributed by the employee. District contributions for each employee vest after four years of service at 100%. At age 55, District contributions are vested at 112%. The total payroll for employees covered by the System for the year ended June 30, 2004 was \$37,195,772 and the total District payroll was \$175,846,926. The employees' contributions during the year ended June 30, 2004 were \$1,724,842 (4.6% of the total covered payroll). The District's General Fund made contributions of \$1,932,229 (5.2% of the total covered payroll). The Des Moines Teacher's Retirement System does not invest in any obligations of the City of Des Moines or its political subdivisions. Plan assets were \$213,276,343 as of June 30, 2004. Fair values of investments that do not have an established market are reported at estimated fair values.

Note 11. New Governmental Accounting Standards Board (GASB) Statements and Pending Pronouncements

The District adopted Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, during the year ended June 30, 2004, which had no effect on the District's basic financial statements.

The GASB has also issued several statements not yet implemented by the District. The statements which might impact the District are as follows:

In March 2003, GASB issued Statement No. 40, *Deposits and Investment Risk Disclosures*, which will be effective for the District beginning with its year ending June 30, 2005. The Statement establishes and modifies disclosure requirements related to investment risks including credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair market values that are highly sensitive to changes in interest rates. This Statement also establishes and modifies disclosure requirements for deposit risks.

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, issued November 2003, will be effective for the District beginning with its year ending June 30, 2006. This Statement requires governments to report the effects of capital asset impairment in their financial statements when it occurs and requires all governments to account for insurance recoveries in the same manner.

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, was issued April 2004. This Statement establishes uniform financial reporting standards for other postemployment benefit plans (OPEB plans) and supersedes existing guidance. The provisions of this Statement will be effective for the District beginning with its year ending June 30, 2007.

Des Moines Independent Community School District

Notes to Basic Financial Statements

Note 11. New Governmental Accounting Standards Board (GASB) Statements and Pending Pronouncements (Continued)

GASB Statement No. 45, *Accounting and Financial Reporting by Employer for Postemployment Benefits Other Than Pensions*, issued June 2004, will be effective for the District beginning with its year ending June 30, 2008. This Statement establishes standards for the measurement, recognition and display of other postemployment benefits expenses and related liabilities or assets, not disclosures, and if applicable, required supplementary information in the financial reports.

The District's management has not yet determined the effect, if any, these Statements will have on the District's future financial statements. However, the District plans to implement all standards by the required dates.

Des Moines Independent Community School District

Required Supplementary Information - Budgetary Comparison Schedule -
 All Governmental Funds, Enterprise Funds and Private Purpose Trust Funds
 For the Year Ended June 30, 2004

	Actual			
	Governmental Fund Types	Enterprise Funds	Private Purpose Trust Funds	Total
Revenues:				
Local sources	\$ 136,392,286	\$ 8,225,238	\$ 39,178	\$ 144,656,702
Intermediate sources	6,835,392	-	-	6,835,392
State sources	153,222,634	145,806	-	153,368,440
Federal sources	21,409,808	7,284,429	-	28,694,237
Total revenues	317,860,120	15,655,473	39,178	333,554,771
Expenditures/Expenses:				
Instructional	185,632,366	-	-	185,632,366
Support services	84,509,706	-	-	84,509,706
Noninstructional	670,356	15,470,839	49,107	16,190,302
Other	58,951,775	190,965	-	59,142,740
Total expenditures/ expenses	329,764,203	15,661,804	49,107	345,475,114
Excess (deficiency) of revenues over expen- ditures/expenses	(11,904,083)	(6,331)	(9,929)	(11,920,343)
Other financing sources (uses):				
Proceeds from sale of capital assets	23,665	-	-	23,665
Issuance of long term-debt	4,100,000	-	-	4,100,000
Premiums	21,939	-	-	21,939
Transfers in	1,067,945	50,000	-	1,117,945
Transfers (out)	(1,117,945)	-	-	(1,117,945)
Net change in fund balances	\$ (7,808,479)	\$ 43,669	\$ (9,929)	\$ (7,774,739)

See Note to Required Supplementary Information.

Budget		
Original	Final	Final Budget to Actual Variance Positive (Negative)
\$ 137,173,144	\$ 147,193,144	\$ (2,536,442)
17,198,767	16,290,786	(9,455,394)
143,946,133	144,596,133	8,772,307
29,505,993	32,555,993	(3,861,756)
<u>327,824,037</u>	<u>340,636,056</u>	<u>(7,081,285)</u>
184,524,004	186,624,004	991,638
81,879,317	86,134,317	1,624,611
18,151,381	18,271,381	2,081,079
50,622,014	59,214,033	71,293
<u>335,176,716</u>	<u>350,243,735</u>	<u>4,768,621</u>
(7,352,679)	(9,607,679)	(2,312,664)
-	-	23,665
4,100,000	4,100,000	-
-	-	21,939
-	-	1,117,945
(59,938)	(1,009,938)	(108,007)
<u>\$ (3,312,617)</u>	<u>\$ (6,517,617)</u>	<u>\$ (1,257,122)</u>

Des Moines Independent Community School District

Note to Required Supplementary Information Year Ended June 30, 2004

Note 1. Basis of Presentation

The District operates within the budget requirements for school districts as specified by State law and as prescribed by the Iowa Department of Management. Budgets are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

For the fiscal year beginning July 1, a proposed expenditure budget is adopted by the Board and filed with the County Auditor no later than April 15. The budget is certified by the County Auditor to the Department of Management.

Once adopted, the budget can be amended by the Board. The amendment must be published and a public hearing conducted prior to the amendment. Any amendments must be certified to the County Auditor no later than May 31. The proposed expenditure budget is advertised in the local newspaper, together with a notice of public hearing.

The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is the functional area for budgeted governmental, enterprise, and private purpose trust funds in total, rather than by individual fund type. Formal and legal budgetary control is based on four major classes of expenditures known as functional areas. These four functional areas are instruction, support services, noninstructional programs, and other expenditures. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. Authorized expenditures cannot exceed the lesser of the certified budget plus any allowable amendments, or the authorized budget, which is the sum of the District cost for that year plus the actual miscellaneous income received for that year plus the actual unspent balance from the preceding year. Appropriations as adopted and amended lapse at the end of the fiscal year.

In fiscal year 2004, the District received a \$2,500,000 cash reserve levy. This levy is included in General Fund property tax revenues. A \$3,000,000 cash reserve levy has been approved for fiscal year 2005.

The District is required by the Code of Iowa to budget for its share of media, educational services, and special education support provided through the local area education agency. The District's actual amount for this purpose totaled \$9,140,786 for the year ended June 30, 2004.

Des Moines Independent Community School District

Combining Balance Sheet
All Nonmajor Governmental Funds
June 30, 2004

	Special Revenue		
	Student Activity	Management	Physical Plant and Equipment Levy
Assets			
Cash and investments	\$ 2,016,499	\$ -	\$ 1,389,096
Property taxes receivable - current year	-	99,701	76,997
Property taxes receivable - succeeding year	-	11,700,123	5,628,946
Other receivables	12,033	-	-
Due from other funds	80,607	-	-
Prepaid items	8,355	-	8,084
Total assets	\$ 2,117,494	\$ 11,799,824	\$ 7,103,123
Liabilities and Fund Balances (Deficits)			
Liabilities:			
Accounts payable	\$ 47,436	\$ 253,702	\$ 1,346,081
Accrued payroll	19,111	-	-
Special termination benefits	-	1,366,383	-
Due to other funds	-	80,607	-
Due to other governments	5,131	388	2,755
Deferred revenue	11,240	11,700,123	5,628,946
Total liabilities	82,918	13,401,203	6,977,782
Fund balances (deficits):			
Reserved for:			
Capital outlay	-	-	-
Debt service	-	-	-
Prepaid items	8,355	-	8,084
Permanent trusts	-	-	-
Unreserved, undesignated reported in special revenue funds	2,026,221	(1,601,379)	117,257
Total fund balances (deficits)	2,034,576	(1,601,379)	125,341
Total liabilities and fund balances (deficits)	\$ 2,117,494	\$ 11,799,824	\$ 7,103,123

Public Education and Recreation Levy	DMPS	Debt Service	Capital Projects Greenhouse	Permanent	Total Nonmajor Governmental Funds
\$ 33,834	\$ 2,051,069	\$ 444,905	\$ 47,244	\$ 9,878	\$ 5,992,525
10,263	-	18,132	-	-	205,093
716,825	-	622,350	-	-	18,668,244
-	-	-	-	-	12,033
-	-	-	-	-	80,607
-	-	-	-	-	16,439
<u>\$ 760,922</u>	<u>\$ 2,051,069</u>	<u>\$ 1,085,387</u>	<u>\$ 47,244</u>	<u>\$ 9,878</u>	<u>\$ 24,974,941</u>
\$ 3,406	\$ -	\$ -	\$ -	\$ -	\$ 1,650,625
21,555	1,543	-	-	-	42,209
-	-	-	-	-	1,366,383
-	-	-	-	-	80,607
-	-	-	-	-	8,274
716,825	-	622,350	-	-	18,679,484
<u>741,786</u>	<u>1,543</u>	<u>622,350</u>	<u>-</u>	<u>-</u>	<u>21,827,582</u>
-	-	-	47,244	-	47,244
-	-	463,037	-	-	463,037
-	-	-	-	-	16,439
-	-	-	-	9,878	9,878
19,136	2,049,526	-	-	-	2,610,761
<u>19,136</u>	<u>2,049,526</u>	<u>463,037</u>	<u>47,244</u>	<u>9,878</u>	<u>3,147,359</u>
<u>\$ 760,922</u>	<u>\$ 2,051,069</u>	<u>\$ 1,085,387</u>	<u>\$ 47,244</u>	<u>\$ 9,878</u>	<u>\$ 24,974,941</u>

Des Moines Independent Community School District

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
(Deficits) - All Nonmajor Governmental Funds
Year Ended June 30, 2004

	Special Revenue		
	Student	Management	Physical Plant and Equipment
	Activity		Levy
Revenues:			
Property taxes	\$ -	\$ 6,572,485	\$ 5,249,666
Other local sources	-	-	96,569
Investment earnings	20,635	-	(48,086)
State sources	-	51,710	37,864
Federal sources	-	-	225,000
Student activities	2,963,441	-	-
Total revenues	<u>2,984,076</u>	<u>6,624,195</u>	<u>5,561,013</u>
Expenditures:			
Current:			
Instructional	2,951,158	4,012,268	110,176
Student services	-	4,546	-
Instructional support services	-	1,017	2,537
General administration	-	1,732,652	-
Central support services	-	9,789	400,244
Building administration	-	510,255	-
Business administration	-	7,306	-
Plant operation and maintenance	-	324,533	25,768
Student transportation	-	616,645	-
Noninstructional	-	189,623	-
Capital outlay	-	-	11,478,560
Debt service:			
Principal retirement	-	-	-
Interest	-	-	-
Bond issuance costs	-	-	25,344
Total expenditures	<u>2,951,158</u>	<u>7,408,634</u>	<u>12,042,629</u>
Excess (deficiency) of revenues over expenditures	<u>32,918</u>	<u>(784,439)</u>	<u>(6,481,616)</u>
Other financing sources (uses):			
Issuance of long term debt	-	-	4,100,000
Premiums	-	-	21,939
Transfers in	-	-	-
Transfers out	-	-	(109,938)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>4,012,001</u>
Net changes in fund balances (deficits)	<u>32,918</u>	<u>(784,439)</u>	<u>(2,469,615)</u>
Fund balances (deficits), beginning of year	2,001,658	(816,940)	2,594,956
Fund balances (deficits), end of year	<u>\$ 2,034,576</u>	<u>\$ (1,601,379)</u>	<u>\$ 125,341</u>

Public		Capital Projects			Total Nonmajor Governmental Funds	
Education and Recreation Levy	DMPS	Debt Service	Greenhouse	Permanent		
\$ 676,558	\$ -	\$ 1,186,643	\$ -	\$ -	\$ -	\$ 13,685,352
396,574	179,249	-	-	-	-	672,392
-	247,276	-	-	90	-	219,915
5,323	-	7,081	-	-	-	101,978
-	-	-	-	-	-	225,000
43,798	6,475	-	-	-	-	3,013,714
1,122,253	433,000	1,193,724	-	90	-	17,918,351
658,955	88,521	-	-	-	-	7,821,078
-	-	-	-	-	-	4,546
-	47,105	-	-	-	-	50,659
-	-	-	-	-	-	1,732,652
-	-	-	-	-	-	410,033
-	-	-	-	-	-	510,255
-	-	-	-	-	-	7,306
-	-	-	-	-	-	350,301
-	-	-	-	-	-	616,645
346,471	33,015	-	-	-	-	569,109
124,916	12,657	-	67,613	-	-	11,683,746
-	-	1,020,000	-	-	-	1,020,000
-	-	90,488	-	-	-	90,488
-	-	-	-	-	-	25,344
1,130,342	181,298	1,110,488	67,613	-	-	24,892,162
(8,089)	251,702	83,236	(67,613)	90	-	(6,973,811)
-	-	-	-	-	-	4,100,000
-	-	-	-	-	-	21,939
-	-	59,938	59,831	-	-	119,769
-	(948,176)	-	-	-	-	(1,058,114)
-	(948,176)	59,938	59,831	-	-	3,183,594
(8,089)	(696,474)	143,174	(7,782)	90	-	(3,790,217)
27,225	2,746,000	319,863	55,026	9,788	-	6,937,576
\$ 19,136	\$ 2,049,526	\$ 463,037	\$ 47,244	\$ 9,878	\$ -	\$ 3,147,359

Des Moines Independent Community School District

Combining Statement of Net Assets (Deficit)

All Nonmajor Enterprise Funds

June 30, 2004

	School Nutrition	Child Care	Home Remodeling
Assets			
Current assets:			
Cash and cash equivalents	\$ 695,933	\$ 238,870	\$ 194,907
Other receivables, net of allowances for uncollectibles of \$25,889	80,097	72,048	-
Due from other governments	55,981	-	-
Due from other funds	-	-	-
Inventories	250,967	-	-
Total current assets	1,082,978	310,918	194,907
Noncurrent assets, depreciable assets, net	1,572,525	-	-
Total assets	\$ 2,655,503	\$ 310,918	\$ 194,907
Liabilities			
Current liabilities:			
Accounts payable	\$ 33,513	\$ 23,829	\$ 4
Accrued payroll	195,741	153,155	-
Other current liabilities	19,049	-	-
Due to other funds	-	-	-
Due to other governments	19,613	272	-
Compensated absences	96,428	16,002	-
Total current liabilities	364,344	193,258	4
Noncurrent liabilities, accrued compensated absences	14,935	9,667	-
Total liabilities	379,279	202,925	4
Net Assets (Deficit)			
Invested in capital assets, net of related debt	1,572,525	-	-
Unrestricted (deficit)	703,699	107,993	194,903
Total net assets	2,276,224	107,993	194,903
Total liabilities and net assets	\$ 2,655,503	\$ 310,918	\$ 194,907

Automotive	Wellness Center	Total
\$ 12,641	\$ -	\$ 1,142,351
-	-	152,145
-	-	55,981
17,010	-	17,010
-	-	250,967
29,651	-	1,618,454
-	-	1,572,525
\$ 29,651	\$ -	\$ 3,190,979

\$ 1,750	\$ -	\$ 59,096
-	-	348,896
-	-	19,049
-	17,010	17,010
-	-	19,885
-	-	112,430
1,750	17,010	576,366

-	-	24,602
1,750	17,010	600,968

-	-	1,572,525
27,901	(17,010)	1,017,486
27,901	(17,010)	2,590,011
\$ 29,651	\$ -	\$ 3,190,979

Des Moines Independent Community School District

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets (Deficit)
 All Nonmajor Enterprise Funds
 Year Ended June 30, 2004

	School Nutrition	Child Care	Home Remodeling
Operating revenues:			
Student activities	\$ -	\$ -	\$ -
Charges for services:			
Sale of food	4,461,979	-	-
Child care	-	3,554,721	-
Miscellaneous	8,012	3,786	-
Total operating revenues	4,469,991	3,558,507	-
Operating expenses:			
Student services	11,498,041	3,887,289	-
School nutrition, depreciation	187,003	-	-
Community services	-	-	3,962
Total operating expenses	11,685,044	3,887,289	3,962
Operating income (loss)	(7,215,053)	(328,782)	(3,962)
Nonoperating revenues:			
Other local sources	103,877	-	-
State sources	145,806	-	-
Federal sources	7,284,429	-	-
Total nonoperating revenues	7,534,112	-	-
Income (loss) before transfers	319,059	(328,782)	(3,962)
Transfers in	50,000	-	-
Changes in net assets (deficit)	369,059	(328,782)	(3,962)
Total net assets (deficit), beginning of year	1,907,165	436,775	198,865
Total net assets (deficit), end of year	<u>\$ 2,276,224</u>	<u>\$ 107,993</u>	<u>\$ 194,903</u>

Automotive	Wellness Center	Total
\$ 31,716	\$ -	\$ 31,716
-	-	4,461,979
-	-	3,554,721
-	52,330	64,128
<u>31,716</u>	<u>52,330</u>	<u>8,112,544</u>
39,299	46,210	15,470,839
-	-	187,003
-	-	3,962
<u>39,299</u>	<u>46,210</u>	<u>15,661,804</u>
<u>(7,583)</u>	<u>6,120</u>	<u>(7,549,260)</u>
8,817	-	112,694
-	-	145,806
-	-	7,284,429
<u>8,817</u>	<u>-</u>	<u>7,542,929</u>
1,234	6,120	(6,331)
-	-	50,000
1,234	6,120	43,669
26,667	(23,130)	2,546,342
<u>\$ 27,901</u>	<u>\$ (17,010)</u>	<u>\$ 2,590,011</u>

Des Moines Independent Community School District

Combining Statement of Cash Flows
All Nonmajor Enterprise Funds
Year Ended June 30, 2004

	School Nutrition	Child Care	Home Remodeling
Cash Flows From Operating Activities:			
Cash received from user charges	\$ 4,517,237	\$ 3,579,313	\$ -
Cash payments to employees for services	(5,763,217)	(3,377,696)	-
Cash payments to suppliers for goods and services	(4,576,125)	(380,416)	(3,972)
Net cash provided by (used in) operating activities	(5,822,105)	(178,799)	(3,972)
Cash Flows From Noncapital Financing Activities:			
Payments to other funds	-	-	-
Payments from other funds	-	-	-
Transfers from other funds	50,000	-	-
Nonoperating grants and donations received	6,754,765	-	-
Net cash provided by (used in) noncapital financing activities	6,804,765	-	-
Cash Flows From Capital and Related Financing Activities, acquisition of capital assets			
	(363,811)	-	-
Net increase (decrease) in cash and cash equivalents	618,849	(178,799)	(3,972)
Cash and Cash Equivalents, beginning of year	77,084	417,669	198,879
Cash and Cash Equivalents, end of year	<u>\$ 695,933</u>	<u>\$ 238,870</u>	<u>\$ 194,907</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:			
Operating income (loss)	\$ (7,215,053)	\$ (328,782)	\$ (3,962)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	187,003	-	-
Commodities used	779,347	-	-
Changes in assets and liabilities:			
Receivables	91,564	1,313	-
Inventories	254,483	-	-
Accounts payable and due to other governments	11,412	19,406	(10)
Accrued liabilities	113,456	129,264	-
Other current liabilities	(44,317)	-	-
Net cash provided by (used in) operating activities	\$ (5,822,105)	\$ (178,799)	\$ (3,972)
Noncash Noncapital Financing Activities, commodities received from US Department of Agriculture			
	\$ 779,347	\$ -	\$ -

Automotive	Wellness Center	Total
\$ 31,716	\$ 52,330	\$ 8,180,596
-	-	(9,140,913)
<u>(38,635)</u>	<u>(46,210)</u>	<u>(5,045,358)</u>
<u>(6,919)</u>	<u>6,120</u>	<u>(6,005,675)</u>
-	(6,120)	(6,120)
6,120	-	6,120
-	-	50,000
<u>8,817</u>	<u>-</u>	<u>6,763,582</u>
<u>14,937</u>	<u>(6,120)</u>	<u>6,813,582</u>
-	-	(363,811)
8,018	-	444,096
4,623	-	698,255
<u>\$ 12,641</u>	<u>\$ -</u>	<u>\$ 1,142,351</u>
\$ (7,583)	\$ 6,120	\$ (7,549,260)
-	-	187,003
-	-	779,347
-	-	92,877
-	-	254,483
664	-	31,472
-	-	242,720
-	-	(44,317)
<u>\$ (6,919)</u>	<u>\$ 6,120</u>	<u>\$ (6,005,675)</u>
\$ -	\$ -	\$ 779,347

Des Moines Independent Community School District

Combining Statement of Net Assets (Deficit)

All Internal Service Funds

June 30, 2004

	Self Insurance	Risk Management	Collage	Print Shop	Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 3,872,084	\$ -	\$ 150	\$ -	\$ 3,872,234
Other receivables	261,830	-	-	-	261,830
Due from other funds	106,155	-	-	-	106,155
Inventories	-	-	-	52,910	52,910
Prepaid expenses	-	89,499	-	-	89,499
Total assets	4,240,069	89,499	150	52,910	4,382,628
Noncurrent assets, depreciable assets, net	-	-	-	135,407	135,407
Total assets	\$ 4,240,069	\$ 89,499	\$ 150	\$ 188,317	\$ 4,518,035
Liabilities					
Current liabilities:					
Accounts payable	\$ -	\$ 582	\$ 25	\$ 246	\$ 853
Other current liabilities	3,014,179	-	-	-	3,014,179
Due to other funds	-	87,245	3,807	15,103	106,155
Deferred revenue	22,123	1,672	-	-	23,795
Accrued compensated absences	-	-	888	6,785	7,673
Total current liabilities	3,036,302	89,499	4,720	22,134	3,152,655
Noncurrent liabilities, accrued compensated absences	-	-	2,963	3,974	6,937
Total liabilities	3,036,302	89,499	7,683	26,108	3,159,592
Net Assets (Deficit)					
Invested in capital assets, net of related debt	-	-	-	135,407	135,407
Unrestricted	1,203,767	-	(7,533)	26,802	1,223,036
Total net assets (deficit)	1,203,767	-	(7,533)	162,209	1,358,443
Total Liabilities and Net Assets	\$ 4,240,069	\$ 89,499	\$ 150	\$ 188,317	\$ 4,518,035

Des Moines Independent Community School District

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets (Deficit)
 All Internal Service Funds
 Year Ended June 30, 2004

	Self Insurance	Risk Management	Collage	Print Shop	Total
Operating revenues:					
Charges for services:					
Employee benefits	\$ 19,219,294	\$ 19,125,817	\$ -	\$ -	\$ 38,345,111
Miscellaneous	-	-	59,302	275,510	334,812
Total operating revenues	19,219,294	19,125,817	59,302	275,510	38,679,923
Operating expenses:					
Employee benefits	18,485,511	19,125,817	-	-	37,611,328
Depreciation	-	-	-	9,713	9,713
Miscellaneous	-	-	59,819	242,396	302,215
Total operating expenses	18,485,511	19,125,817	59,819	252,109	37,923,256
Changes in net assets	733,783	-	(517)	23,401	756,667
Total net assets, beginning of year	469,984	-	(7,016)	138,808	601,776
Total net assets (deficit), end of year	\$ 1,203,767	\$ -	\$ (7,533)	\$ 162,209	\$ 1,358,443

Des Moines Independent Community School District

Combining Statement of Cash Flows
All Internal Service Funds
Year Ended June 30, 2004

	Risk				
	Self Insurance	Management	Collage	Print Shop	Total
Cash Flows From Operating Activities:					
Cash received from user charges	\$ 19,110,941	\$ 19,125,817	\$ 59,302	\$ 275,510	\$ 38,571,570
Cash payments to employees for services	-	-	(45,474)	(165,328)	(210,802)
Cash payments to suppliers for goods and services	(19,749,949)	(19,213,062)	(14,182)	(83,117)	(39,060,310)
Net cash provided by (used in) operating activities	(639,008)	(87,245)	(354)	27,065	(699,542)
Cash Flows From Noncapital Financing Activities:					
Proceeds from other funds	-	87,245	504	18,406	106,155
Payments to other funds	(106,155)	-	-	-	(106,155)
Net cash provided by (used in) noncapital financing activities	(106,155)	87,245	504	18,406	-
Cash Flows From Capital and Related Financing Activities, acquisition of capital assets					
	-	-	-	(145,120)	(145,120)
Net increase (decrease) in cash and cash equivalents	(745,163)	-	150	(99,649)	(844,662)
Cash and cash equivalents, beginning of year	4,617,247	-	-	99,649	4,716,896
Cash and cash equivalents, end of year	<u>\$ 3,872,084</u>	<u>\$ -</u>	<u>\$ 150</u>	<u>\$ -</u>	<u>\$ 3,872,234</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ 733,783	\$ -	\$ (517)	\$ 23,401	\$ 756,667
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	-	-	-	9,713	9,713
Changes in assets and liabilities:					
Receivables	(130,476)	-	-	-	(130,476)
Inventories	-	-	-	(3,045)	(3,045)
Prepaid expenses	1,581	(89,499)	-	-	(87,918)
Accounts payable	14,898	582	25	212	15,717
Other current liabilities	(1,280,917)	-	-	-	(1,280,917)
Deferred revenue	22,123	1,672	-	-	23,795
Accrued liabilities	-	-	138	(3,216)	(3,078)
Net cash provided by (used in) operating activities	\$ (639,008)	\$ (87,245)	\$ (354)	\$ 27,065	\$ (699,542)
Noncash capital and related financing activities, contribution of capital assets from governmental activities					
	\$ -	\$ -	\$ -	\$ 7,120	\$ 7,120

Des Moines Independent Community School District

Combining Statement of Fiduciary Net Assets

All Private-Purpose Trust Funds

June 30, 2004

	Hoyt/Dahl	Gabriel	Morrison	Employee Dependent Scholarship	Total
Assets					
Cash and investments	\$ 290,071	\$ 58,243	\$ 350,576	\$ 17,453	\$ 716,343
Interest receivable	-	841	4,586	220	5,647
Total assets	\$ 290,071	\$ 59,084	\$ 355,162	\$ 17,673	\$ 721,990
Liabilities, accounts payable	\$ -	\$ -	\$ -	\$ 850	\$ 850
Net Assets, held in trust for scholarships	290,071	59,084	355,162	16,823	721,140
Total liabilities and net assets	\$ 290,071	\$ 59,084	\$ 355,162	\$ 17,673	\$ 721,990

Des Moines Independent Community School District

Combining Statement of Changes in Fiduciary Net Assets
 All Private-Purpose Trust Funds
 Year Ended June 30, 2004

	Hoyt/Dahl	Gabriel	Morrison	Employee Dependent Scholarship	Total
Additions:					
Contributions - private source	\$ -	\$ -	\$ 31,639	\$ 1,116	\$ 32,755
Investment earnings	2,192	548	3,519	164	6,423
Total additions	2,192	548	35,158	1,280	39,178
Deductions:					
Scholarship awarded	300	100	22,808	3,400	26,608
Other	2,832	-	19,667	-	22,499
Total deductions	3,132	100	42,475	3,400	49,107
Changes in net assets	(940)	448	(7,317)	(2,120)	(9,929)
Total net assets, beginning of year	291,011	58,636	362,479	18,943	731,069
Total net assets, end of year	<u>\$ 290,071</u>	<u>\$ 59,084</u>	<u>\$ 355,162</u>	<u>\$ 16,823</u>	<u>\$ 721,140</u>

Des Moines Independent Community School District

Combining Statement of Assets and Liabilities

All Agency Funds

June 30, 2004

	Urban Education		
	Faculty and Staff	Network	Total
Assets , cash and cash equivalents	\$ 205,821	\$ 64,781	\$ 270,602
Liabilities			
Accounts payable	\$ 1,280	\$ 15,600	\$ 16,880
Due to other governmental units	204,541	49,181	253,722
Total liabilities	\$ 205,821	\$ 64,781	\$ 270,602

Des Moines Independent Community School District

Combining Statement of Changes in Assets and Liabilities

Agency Funds

Year Ended June 30, 2004

	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
Faculty and Staff				
Assets				
Cash and cash equivalents	\$ 191,685	\$ 216,839	\$ 202,703	\$ 205,821
Liabilities				
Accounts payable	\$ 2,000	\$ -	\$ 720	\$ 1,280
Due to other governmental units	189,685	14,856	-	204,541
Total liabilities	\$ 191,685	\$ 14,856	\$ 720	\$ 205,821
Urban Education Network				
Assets				
Cash and cash equivalents	\$ 49,497	\$ 79,570	\$ 64,286	\$ 64,781
Liabilities				
Accounts payable	\$ 376	\$ 15,224	\$ -	\$ 15,600
Due to other governmental units	49,121	60	-	49,181
Total liabilities	\$ 49,497	\$ 15,284	\$ -	\$ 64,781
Total				
Assets				
Cash and cash equivalents	\$ 241,182	\$ 296,409	\$ 266,989	\$ 270,602
Liabilities				
Accounts payable	\$ 2,376	\$ 15,224	\$ 720	\$ 16,880
Due to other governmental units	238,806	14,916	-	253,722
Total liabilities	\$ 241,182	\$ 30,140	\$ 720	\$ 270,602

Des Moines Independent Community School District

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2004

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
US Department of Agriculture:			
(Passed through Iowa Department of Education):			
School Breakfast Program	10.553	77-1737	\$ 1,002,895
National School Lunch Program	10.555	77-1737	5,053,133
Child and Adult Care Food Program	10.558	77-1737	240,322
Summer Food Service Program for Children	10.559	77-1737	208,732
Total US Department of Agriculture			<u>6,505,082</u>
US Department of Housing and Urban Development			
(Passed through City of Des Moines):			
Community Development Block Grant (CDBG)	14.218	42-6004514	<u>42,492</u>
US Department of Education:			
(Direct)			
Safe & Drug Free Schools & Communities (Healthy Students)	84.184	42-6001433	48,297
Middle School Drug Prevention Coordinator	84.184K	42-6001433	108,111
Smaller Learning Communities - Implementation	84.215L	42-6001433	584,897
Smoother Sailing	84.215K	42-6001433	167,372
Carol M. White Physical Fitness	84.215F	42-6001433	47,752
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	42-6001433	162,552
Project Roots	84.290U	42-6001433	330,297
Project Raices	84.195B	42-6001433	225,725
			<u>1,675,003</u>
(Passed Through Iowa State University):			
Carol M. White Physical Education Program Grant	84.215F	42-6021466	<u>117,354</u>
(Passed Through Iowa Department of Education):			
Title I Grants to Local Educational Agencies	84.010A	42-6004525	6,377,329
Comprehensive School Reform Demonstration	84.332	42-6004525	4,294
Vocational Education Basic Grants to States	84.048	42-6004525	523,719
Safe and Drug-Free Schools and Communities	84.186	42-6004525	227,907

(Continued)

Des Moines Independent Community School District

Schedule of Expenditures of Federal Awards (Continued)

Year Ended June 30, 2004

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
(Passed Through Iowa Department of Education):			
Improving Teacher Quality State Grant (Title II)	84.367	42-6004525	1,505,014
Title I Accountability Grants	84.348	42-6004525	39,986
Reading First	84.357	42-6004525	340,661
Education Technology State Grant (Title II Technology - E2T2)	84.318	42-6004525	108,283
Education Technology State Grant (Technology Literacy Challenge Grant)	84.318	42-6004525	1,601
Special Education State Program Improvement Grants for Children with Disabilities	84.323	42-6004525	18,201
Education for Homeless Children & Youth	84.196	42-6004525	23,000
Education, Consolidation and Improvement Act of 1981, Title V	84.151	42-6004525	326,541
Reading Excellence	84.338	42-6004525	114,118
Star Schools	84.203	42-6004525	96,244
Special Education Grants to States (Positive Behavioral Support)	84.027	42-6004525	7,900
English Language Acquisition Grants (Title III ELL/LEP)	84.365	42-6004525	273,331
English Language Acquisition Grants (Title III Immigrant Children)	84.365	42-6004525	34,008
Fund for the Improvement of Education (Title III FIE ESL Training)	84.215	42-6004525	56,245
Iowa Demonstration Construction Grants	84.215	42-6004525	389,176
Safe & Drug Free Schools & Communities (Expelled/Suspended Students)	84.184	42-6004525	106,495
Grants for State Assessments & Related Activities	84.369	42-6004525	185,760
			<u>10,759,813</u>
(Passed through Heartland Area Education Agency 11):			
Special Education Grants to States (Individuals with Disabilities Education Act)	84.027	42-1028173	1,414,030
Special Education Grants to States (Handicapped Preschool Program Vocational Assessment)	84.027	42-1028173	5,082,111
Special Education Grants to States (Grants for Infants and Families with Disabilities)	84.181	42-1028173	146,817
Parent Education Project	84.029	42-1028173	15,080
Special Education Preschool Grants (Least Restrictive Environment Coordinator)	84.173	42-1028173	218,774
			<u>6,876,812</u>
(Passed through Department of Public Health):			
Rehabilitation Services - Vocational Rehabilitation Grants to States (TAP Grant)	84.126	42-6004525	5,706
			<u>19,434,688</u>

Total US Department of Education

(Continued)

Des Moines Independent Community School District

Schedule of Expenditures of Federal Awards (Continued)

Year Ended June 30, 2004

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
US Department of Health and Human Services:			
(Passed through Iowa Department of Economic Development):			
Refugee & Entrant Assistance-Discretionary Grants (Refugee Service Impact Grants)	93.576	42-6004525	51,106
(Passed through Iowa Department of Education):			
Refugee Assistance Program	93.576	42-6004525	67,636
Medical Assistance Program - Medicaid Administration	93.778	N/A	150
(Passed through Iowa Department of Human Services):			
Childcare & Development Block Grant	93.575	42-6004525	11,840
			<u>130,732</u>
(Passed through Drake University):			
Head Start	93.600	42-0680460	1,439,688
Total US Department of Health and Human Services			<u>1,570,420</u>
U.S. Department of Defense:			
(Direct), Air Education & Training Command	12.999	N/A	107,735
National Science Foundation:			
(Direct), Education & Human Resources (President's Award)	47.076	N/A	2,457
Total Cash Assistance Expended			<u>27,662,874</u>
Noncash Assistance:			
U. S. Department of Agriculture			
(Passed through State Department of Education):			
USDA Commodities	10.550	77-1737	679,347
U. S. Department of Agriculture			
(Passed through U. S. Department of Defense):			
USDA Commodities	10.550	N/A	100,000
Total Noncash Assistance Expended			<u>779,347</u>
Total Expenditures of Federal Awards			<u><u>\$ 28,442,221</u></u>

See Notes to Schedule of Expenditures of Federal Awards.

Des Moines Independent Community School District

**Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004**

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of Des Moines Independent Community School District for the year ended June 30, 2004. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies is included in the schedule. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Significant Accounting Policies

Revenue from federal awards is recognized when the District has done everything necessary to establish its right to revenue. For governmental funds, revenue from federal grants is recognized when they become both measurable and available. Expenditures of federal awards are recognized in the accounting period when the liability is incurred.

Note 3. Pass-Through Funding

Of the federal expenditures presented in the schedule, the District provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipient
Title I Grants to Local Educational Agencies (LEAs) (Title I, Part A of ESEA)	84.010A	\$ 132,285
Safe and Drug-Free Schools and Communities	84.184	71,234

Des Moines Independent Community School District

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2004**

Findings	Status	Corrective Action Plan or Other Explanation
Reportable Conditions in Internal Control		
03-II-A The District does not have adequate controls in place for documenting and maintaining accurate inventory counts and valuations.	Corrective action taken	
03-II-B The District does not have adequate segregation of duties needed for an effective system of internal accounting control over the payroll cycle.	Uncorrected	See similar finding and corrective action plan at 04-II-A.
03-II-C The District does not have adequate segregation of duties needed for an effective system of internal accounting control over the cash receipt cycle.	Uncorrected	See similar finding and corrective action plan at 04-II-D.
03-II-D Uncleared deposits in transit were not investigated in a timely manner.	Corrective action taken	
03-II-E The District does not have adequate segregation of duties needed for an effective system of internal accounting control over the cash disbursement cycle.	Uncorrected	See similar finding and corrective action plan at 04-II-C.

(Continued)

Des Moines Independent Community School District

**Summary Schedule of Prior Audit Findings (Continued)
Year Ended June 30, 2004**

Findings	Status	Corrective Action Plan or Other Explanation
Reportable Conditions in Administering Federal Awards		
03-III-A The District does not have an adequate system in place for monitoring subrecipients.	Uncorrected	See similar finding and corrective action plan at 04-III-A.
03-III-B The District did not properly identify federal award information and compliance requirements to subrecipients.	Corrective action taken	
03-III-C The District does not document the allocation of split-funded employee payroll costs.	Uncorrected	See similar finding and corrective action plan at 04-III-B.
03-III-D Semiannual certifications are not completed by employees charged to a single federal award.	Uncorrected	See similar finding and corrective action plan at 04-III-C.
Other Findings Related to Required Statutory Reporting:		
03-IV-B Disbursements for the year ended June 30, 2003 exceeded the amounts budgeted in the final amended certified budget for instructional.	Corrective action taken	
03-IV-G March 14, 2003 board minutes were not formally approved.	Uncorrected	See similar finding and corrective action plan at 04-IV-G.
03-IV-H <u>Finding 1</u> - Documentation to support the number of foster care students reported as enrolled is not maintained.	Uncorrected	See similar finding and corrective action plan at 04-IV-H.
03-IV-H <u>Finding 2</u> - Adequate documentation to support the number of open enrollment, tuition, shared time nonpublic, community college and dual enrolled students was not maintained.	Uncorrected	See similar finding and corrective action plan at 04-IV-H.
03-IV-K The Management Fund, Wellness Center Fund and Collage Fund had deficit fund balances as of June 30, 2003.	Uncorrected	See similar finding and corrective action plan at 04-IV-K.
03-IV-L The Board did not approve all transfers between funds.	Uncorrected	See similar finding and corrective action plan at 04-IV-L.
03-IV-M The District was unable to locate employee letters indicating the employee's intent to retire.	Corrective action taken	

McGladrey & Pullen

Certified Public Accountants

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
Des Moines Independent Community School District
Des Moines, Iowa

We have audited the financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Des Moines Independent Community School District as of and for the year ended June 30, 2004, which collectively comprise Des Moines Independent Community School District's basic financial statements and have issued our report thereon dated November 4, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and Chapter 11 of the Code of Iowa.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Des Moines Independent Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-II-A, 04-II-B, 04-II-C, 04-II-D.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of Des Moines Independent Community School District in a separate letter dated November 4, 2004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Des Moines Independent 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, noncompliance 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 noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the basic 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 in Section IV of the Schedule of Findings and Questioned Costs are not intended to constitute legal interpretation of those statutes.

This report is intended solely for the information of the Board of Education, audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey & Pullen, LLP

Davenport, Iowa
November 4, 2004

McGladrey & Pullen

Certified Public Accountants

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

To the Board of Education
Des Moines Independent Community School District
Des Moines, Iowa

Compliance

We have audited the compliance of Des Moines Independent Community School District with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of the District's major federal programs for the year ended June 30, 2004. Des Moines Independent Community School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; Chapter 11 of the Code of Iowa; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Des Moines Independent Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Des Moines Independent Community School District's compliance with those requirements.

In our opinion, Des Moines Independent Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Des Moines Independent Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Des Moines Independent Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-III-A, 04-III-B, 04-III-C, 04-III-D.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information of the Board of Education, audit committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey & Pullen, LLP

Davenport, Iowa
November 4, 2004

Des Moines Independent Community School District

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2004**

I. Summary of the Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes None Reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major program:

CFDA Number	Name of Federal Program
84.010A	Title I Grants to Local Educational Agencies
84.027	Special Education - Grants to States
84.173	Special Education - Preschool Grants
93.600	Head Start

Dollar threshold used to distinguish between type A and type B programs: \$853,267

Auditee qualified as low-risk auditee? Yes No

Des Moines Independent Community School District

Schedule of Findings and Questioned Costs Year Ended June 30, 2004

II. Findings Relating to the Financial Statement Audit as Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

A. Reportable Conditions in Internal Control

04-II-A

Finding: A good internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion. The District has an improper segregation of duties over the payroll system.

Condition: The payroll department has the responsibility for updating the payroll master records, recording payroll transactions and distributing the payroll checks without a proper review process in place.

Effect: Transaction errors could occur and not be detected in a timely manner.

Recommendation: We recommend the persons responsible for the recordkeeping functions do not have access to the checks printed by the data center. In addition, the District should investigate the system capability of generating an edit report after each payroll run that would indicate any changes made to an employee's payroll records, the date of the transaction and the person entering the change. A person independent of the payroll processing function should review these edit reports.

Response and Corrective Action Plan: Approximately 75% of District employees receive their pay via direct deposit. There continues to be an aggressive push to have both new and existing employees receive their pay via direct deposit. The District will review the distribution process for payroll checks to ensure adequate segregation of duties. The payroll department reconciles payroll runs to the payroll report that are printed with the payroll checks. The actual payroll check is folded and prepared for distribution by payroll staff.

There is an inherent system limitation in generating edit reports that identify changes to employee payroll records. The current system does not allow for an audit trail of this nature. This can only be corrected by implementing a new payroll system. A comprehensive Enterprise Resource Planning (ERP) system project to replace the current financial system, which includes payroll, is in progress. The District will continue to analyze processing efficiencies, and implement the system controls that must be in place in order to identify errors in a timely manner.

04-II-B

Finding: A good internal control contemplates an adequate segregation of duties so that no one person handles a transaction from its inception to completion. The District has an improper segregation of duties over cash receipts of the student activity funds at the schools.

Condition: The bookkeepers and high school athletic assistant at Findley Elementary and North High School collect cash, maintain the records, and deposit the cash. The Business Office records the receipt in the system.

Effect: Misappropriation of assets could occur and not be detected in a timely manner.

Des Moines Independent Community School District

Schedule of Findings and Questioned Costs Year Ended June 30, 2004

Recommendation: We recommend that an independent individual recount the funds and review the deposit slip.

Response and Corrective Action Plan: Due to lack of available resources, many of our school offices are limited to an office manager and the principal. We'll continue to analyze our procedures to determine the most appropriate solution in cooperation with internal audit staff.

04-II-C

Finding: A good internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion. The District has an improper segregation of duties over the cash disbursement cycle.

Condition: Several employees within the accounts payable department have access to blank check stock, the ability to post invoices for payment, and are responsible for check disbursement. One employee has access to create new vendors and the ability to post invoices for payment.

Effect: Misappropriation of assets could occur and not be detected in a timely manner.

Recommendation: The data center, or someone independent of accounts payable processing, should mail the accounts payable checks, and only the file copies of the checks be returned to accounts payable. In addition, the blank checks should be maintained in a location with very limited access. We recommend an edit report showing all vendors that have recently been added to the system or changes made to current vendor information should be produced and reviewed by management.

Response and Corrective Action Plan: The process of maintaining vendor records will be reviewed by business and finance staff in conjunction with purchasing staff. Accounting staff will no longer be allowed to update or create vendor records in the financial accounting system. This function will be the sole responsibility of the purchasing department.

A vendor list already exists and is maintained in the financial accounting system; however, there is an inherent system limitation in generating edit reports that identify changes to vendor records. The current system does not allow for an audit trail of this nature. This can only be corrected by implementing a new purchasing system. A comprehensive Enterprise Resource Planning (ERP) system project to replace the current financial system, which includes purchasing, is in progress. The District will continue to analyze processing efficiencies, and implement the system controls that must be in place in order to identify errors in a timely manner.

The District will review the distribution process for vendor checks to ensure adequate segregation of duties.

The check stock paper that is maintained in the business and finance department is placed in a secure location that will have limited access. It should be noted that checks cannot be printed on check stock paper without notifying data center staff and having the proper authority. Check stock paper does not include signatures, magnetic ink character recognition (MICR) line, or check numbers until checks are actually printed.

Des Moines Independent Community School District

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2004**

04-II-D

Finding: A good internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion. The District has an improper segregation of duties over the cash receipts cycle.

Condition: A few of the District employees have access to collect cash and enter those receipts into the system. One employee has the ability to collect cash, enter receipts into the system, take deposits to the bank and reconcile the monthly bank statements.

Effect: Transaction errors could occur and not be detected in a timely manner.

Recommendation: We recommend the responsibility of entering receipts into the system and/or performing the monthly bank reconciliations be restricted from the responsibility of handling cash and taking deposits to the bank.

Response and Corrective Action Plan: As of March 2004, the District implemented new controls to correct this situation. The District cashier will collect money, enter receipts into the system, and prepare the deposit. The cashier will also generate a receipt listing report in conjunction with the deposit and submit the money collected, deposit ticket, and Cash Receipt Listing Report to a staff accountant.

The staff accountant will reconcile the money collected to the deposit ticket and initial the deposit ticket for verification. The staff accountant will then return the money to the cashier and submit the Cash Receipt Listing Report and deposit ticket to the Cash Management Staff Accountant.

The Cash Management Staff Accountant will post the deposit batch to the general ledger and generate a Deposit Listing Report. The Cash Management Staff Accountant will reconcile the report to the deposit ticket and initial both the deposit ticket and Deposit Listing Report for verification. Both the Cash Receipt Listing Report and Deposit Listing Report will be returned to the cashier to file.

Upon deposit, a validated deposit slip or teller deposit receipt will be attached to the reports and other support to document that the money was deposited to the bank.

The District cashier will no longer be able to post a deposit to the general ledger. The Staff Management Accountant will no longer be able to physically touch the money collected for the deposit being verified.

B. Compliance Findings

None

Des Moines Independent Community School District

Schedule of Findings and Questioned Costs Year Ended June 30, 2004

III. Findings and Questioned Costs for Federal Awards

A. Reportable Conditions in Administering Federal Awards

U.S. Department of Education: Title I Grants to Local Educational Agencies (LEAs) (Title I, Part A of ESEA) (CFDA 84.010A)

04-III-A

Finding: The District does not have an adequate system in place for monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient is administering Federal awards in compliance with Federal requirements.

Condition: Currently, the District is partially performing the required monitoring procedures. The District reviews reimbursement requests and supporting documentation submitted by the subrecipient. The District obtained audit reports performed in accordance with OMB Circular A-133 from the subrecipient to ensure that the subrecipient is correcting any findings.

Criteria: OMB Circular A-133 requires a pass-through entity to "monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved." The pass-through entity is accountable for the federal awards even though the subrecipient administers them.

Recommendation: We recommend the District gain an understanding of the subrecipients' controls in place for meeting all requirements of the grant agreement. In addition, we recommend supporting detailed documentation be requested by the District to ensure the subrecipient is meeting the eligibility and reporting requirements. The District should consider obtaining a copy of any on-site visit reports for those subrecipients not required to have an audit performed in accordance with OMB Circular A-133. The District should also consider performing formal site visits to the subrecipients to review financial and programmatic records and observe operations.

Response and Corrective Action Plan: By the end of fiscal year 2004, the District developed subrecipient monitoring procedures, including formal on-site visits, and request copies of on-site reports from those recipients to provide reasonable assurance that those recipients are in compliance with Federal requirements.

Des Moines Independent Community School District

Schedule of Findings and Questioned Costs Year Ended June 30, 2004

U.S. Department of Education:

Title I Grants to Local Educational Agencies (LEAs) (Title I, Part A of ESEA) (CFDA 84.010A)

Improving Teacher Quality State Grant (Title II) (CFDA 84.367)

Special Education Grants to States (CFDA 84.027 and CFDA 84.173)

HeadStart (CFDA 93.600)

04-III-B

Finding: The District does not document the allocation of split funded employee payroll costs related to Title I, Title II, and Special Education. In addition, the contract for HeadStart employees whose duties are solely HeadStart (75% federal funded and 25% nonfederal funded due to the matching requirements) does not reflect the correct title and state that the employees' duties were exclusively related to one federal program as required by OMB Circular A-87.

Condition: The employees of Title I, Title II, and Special Education are not required by the District to complete timesheets or equivalent documentation to support payroll costs charged to the program. Quarterly comparisons of actual costs as accumulated by time records were not compared to the budgeted distributions.

The employees of HeadStart did not sign certification letters specifying their title and state that their duties were exclusively related to HeadStart 75% federal funding and 25% nonfederal funding on a semiannual basis.

Criteria: The Office of Management and Budget Circular A-87 requires a distribution of salaries be supported by personnel activity reports or equivalent documentation for all employees who work for more than one cost objective and that the documentation be signed by the employee. Also, the circular requires at least quarterly comparisons of actual cost to budgeted distributions be made and reflect adjustments as a result of actual activity performed. For employees whose duties are solely for one federal program, the Office of Management and Budget Circular A-87 requires semiannual certifications to support charges to a single federal award.

Recommendation: We recommend that the District implement a system to track employees' time by activity. Based on OMB Circular A-87, the employees should submit a signed (by the employee) timesheet or equivalent documentation by activity on a monthly basis. If a budget or estimate is determined before the services are performed, comparisons of actual costs to budgeted distributions based on the monthly documentation should be done at least on a quarterly basis.

We also recommend the title be included on the contract and that it appropriately states the duties related to the HeadStart program. In addition, employees should sign a certification semiannually that certifies their duties were exclusively related to 75% federal HeadStart funding and 25% nonfederal funding.

Response and Corrective Action Plan: There have been several conversations between the business office and human resources staff; however, no feasible solution has been found. The District will continue to analyze procedures to document the allocation of split funded employee costs to federally funded programs.

Des Moines Independent Community School District

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2004**

U.S. Department of Education:

Title I Grants to Local Educational Agencies (LEAs) (Title I, Part A of ESEA) (CFDA 84.010A)

Improving Teacher Quality State Grant (Title II) (CFDA 84.367)

Special Education Grants to States (CFDA 84.027 and CFDA 84.173)

04-III-C

Finding: The contracts for fully funded Title I, Title II, and Special Education employees do not reflect the correct title and state that the employees' duties were exclusively related to one federal program as required by OMB Circular A-87.

Condition: The employees did not sign certification letters specifying their title and state that their duties were exclusively related to Title I, Title II, or Special Education federal funding on a semiannual basis.

Criteria: The Office of Management and Budget Circular A-87 requires semiannual certifications to support charges to a single federal award.

Recommendation: We recommend the employee's title be included on the contract and that it appropriately states the duties related to the Title I, Title II, or Special Education program. In addition, employees should sign a certification semiannually that certifies their duties were exclusively related to Title I, Title II, or Special Education funding.

Response and Corrective Action Plan: The District will develop procedures to annually document those employees which are fully funded by one Federal program. Signed certification will be completed semi-annually.

Des Moines Independent Community School District

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2004**

**U.S. Department of Health & Human Services:
HeadStart (CFDA 93.600)**

04-III-D

Finding: The District did not have complete and adequate documentation supporting the hours and departments worked by a substitute teacher in the HeadStart program.

Condition: The District's documentation reflects that a HeadStart substitute teacher worked five days in HeadStart. However, the program was only charged four days and a nonfederal program was charged one day. The District does not have documentation to support the days charged to the two programs, resulting in the HeadStart program being undercharged according to the District's documentation.

Criteria: The District should have adequate documentation to support employees' time worked between federal and nonfederal programs.

Recommendation: We recommend that the District maintain a complete audit trail to support employees' actual time worked and what was charged to federal programs.

Response and Corrective Action Plan: The District will develop procedures to identify and document employees' actual time between federal and nonfederal programs.

B. Instances of Noncompliance

None

Des Moines Independent Community School District

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2004**

IV. Other Findings Related to Required Statutory Requirements

04-IV-A – Official Depositories – Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

04-IV-B – Certified Budget – Disbursements for the year ended June 30, 2004 did not exceed the amounts budgeted in the final amended certified budget.

04-IV-C – Questionable Expenditures – No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

04-IV-D – 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.

04-IV-E – Business Transactions – No business transactions between the District and District officials or employees were noted.

04-IV-F – 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 ensure that the coverage is adequate for current operations.

04-IV-G – Board Minutes – The following was noted regarding the Board minutes:

Finding 1: The November 4, 2003 bills requiring Board approval were not approved by the Board.

Recommendation: All expenditures should be approved by the Board with sufficient documentation maintained to evidence proper approval.

Corrective Action Plan: The District will develop procedures to ensure that all bills approved by the Board are properly documented and that the documentation is maintained for audit purposes.

Finding 2: The District does not maintain minutes of closed sessions.

Recommendation: Detailed minutes of closed sessions should be maintained in accordance with Chapter 21.5.

Corrective Action Plan: Beginning December 2004, the District will maintain minutes of closed sessions and retain those minutes in a sealed envelope for a period of at least one year.

Des Moines Independent Community School District

Schedule of Findings and Questioned Costs Year Ended June 30, 2004

04-IV-H – Certified Enrollment – No material variances in the basic enrollment data certified to the Department of Education were noted. However, the following was noted:

Finding 1: The District does not keep documentation supporting the number of foster care students reported as enrolled within the District unless they are special education foster care students.

Recommendation: The District is required to maintain instructions on file describing the procedures for tracking the number of foster care students, which includes communication with foster care facilities. Information from these facilities should be maintained in the file as supporting documentation.

Corrective Action Plan: Due to confidentiality of foster care records, the District can not properly identify and document foster care students enrolled in the District outside of Special Education instruction.

Finding 2: The District does not keep documentation supporting the number of open enrollment, tuition, shared time nonpublic, community college, and dual enrolled students.

Recommendation: The District should update and maintain proper documentation on file supporting the number of students reported in the certified enrollment.

Corrective Action Plan: The District does maintain documentation of students that have either open enrolled, privately paid, are part of shared programming, or are dually enrolled. The challenge is there are changes that occur throughout the school year. The numbers reported as of the certified enrollment date can and may change up to the date the information is submitted to the State Department of Education. The District will continue to update and maintain appropriate documentation for those changes that occur during the year and also as of the designated certified enrollment date.

04-IV-I – Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.

04-IV-J – Certified Annual Report – The Certified Annual Report was filed with the Iowa Department of Education timely; however, we noted adjustments to the amounts reported.

Des Moines Independent Community School District

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2004**

04-IV-K – Deficit Balances – The Management Fund, Wellness Center Fund, and Collage Fund had deficit balances as of June 30, 2004 of \$1,601,379; \$17,010 and \$7,533, respectively.

Recommendation: The District should continue to investigate alternatives to eliminate these deficits in order to return funds to a sound financial condition.

Corrective Action Plan: The District will continue to analyze alternatives to anticipated deficit balances in all fund types. Depending on the fund, deficit balances may not be able to be eliminated within the fiscal year.

04-IV-L – Interfund Transfers – The Board does not approve all transfers between funds during the fiscal year as required by Iowa Code 331.432. The transfer to the Debt Service Fund for debt interest and principal payments is the only transfer approved.

Recommendation: The District should receive the Board's approval on interfund transfers either on a periodic basis throughout the fiscal year or through the budget process.

Corrective Action Plan: This appears to be an isolated incident; however, the District will continue to improve its procedures to obtain Board approval for interfund transfers on a periodic basis during the fiscal year or through the budget process.

04-IV-M – Physical Plant and Equipment Levy Expenditures – The District spent approximately \$20,000 of the Physical Plant and Equipment Levy funds on property taxes pertaining to a lease agreement, which were not in accordance with Chapter 298.3.

Recommendation: The District should review expenditures and Chapter 298.3 to ensure funds are spent accordingly.

Corrective Action Plan: The District will continue to review expenditures from the property, plant and equipment levy to ensure the funds are expended in accordance with Chapter 298.3.

Des Moines Independent Community School District

Corrective Action Plan Year Ended June 30, 2004

Current Number	Comment	Corrective Action Plan	Anticipated Date of Completion	Contact Person
Reportable Conditions in Internal Control				
04-II-A	The District does not have adequate segregation of duties needed for an effective system of internal accounting control over the payroll cycle.	See response and corrective action plan at 04-II-A.	June 30, 2005	Twyla Woods
04-II-B	The District does not have adequate segregation of duties needed over student activity funds at the schools.	See response and corrective action plan at 04-II-B.	June 30, 2005	Patricia Schroeder
04-II-C	The District does not have adequate segregation of duties needed for an effective system of internal accounting control over the cash disbursement cycle.	See response and corrective action plan at 04-II-C.	June 30, 2005	Patricia Schroeder
04-II-D	The District does not have adequate controls in place for an effective system of internal control over the cash receipt cycle for part of the year.	See response and corrective action plan at 04-II-D.	June 30, 2005	Patricia Schroeder

(Continued)

Des Moines Independent Community School District

**Corrective Action Plan (Continued)
Year Ended June 30, 2004**

Current Number	Comment	Corrective Action Plan	Anticipated Date of Completion	Contact Person
Reportable Conditions in Administering Federal Awards				
04-III-A	The District does not have an adequate system in place for monitoring subrecipients.	See response and corrective action plan at 04-III-A.	June 30, 2005	Judi Cunningham
04-III-B	The District does not document the allocation of split-funded employee payroll costs and semiannual certifications are not completed by employees charged to a single federal award.	See response and corrective action plan at 04-III-B.	June 30, 2005	Judi Cunningham
04-III-C	Semiannual certifications are not completed by employees charged to a single federal award.	See response and corrective action plan at 04-III-C.	June 30, 2005	Judi Cunningham
04-III-D	The District does not have adequate supportive documentation to support costs charged to HeadStart.	See response and corrective action plan at 04-III-E.	June 30, 2005	Judi Cunningham
Other Findings Related to Required Statutory Reporting:				
04-IV-G	<u>Finding 1</u> - November 3, 2003 board minutes were not formally approved.	See response and corrective action plan at 04-IV-G.	June 30, 2005	Kim Bradshaw
04-IV-G	<u>Finding 2</u> - District does not maintain minutes of closed sessions.	See response and corrective action plan at 04-IV-G.	June 30, 2005	Kim Bradshaw
04-IV-H	<u>Finding 1</u> - Documentation to support the number of foster care students reported as enrolled is not maintained.	See response and corrective action plan at 04-IV-H.	June 30, 2005	Carol Gustafson
04-IV-H	<u>Finding 2</u> - Adequate documentation to support the number of open enrollment, tuition, shared time nonpublic, community college and dual enrolled students was not maintained.	See response and corrective action plan at 04-IV-H.	June 30, 2005	Carol Gustafson
04-IV-K	The Management Fund, Wellness Center Fund and Collage Fund had deficit fund balances as of June 30, 2003.	See response and corrective action plan at 04-IV-K.	June 30, 2005	Patricia Schroeder
04-IV-L	The Board did not approve all transfers between funds.	See response and corrective action plan at 04-IV-L.	June 30, 2005	Patricia Schroeder
04-IV-M	The District did not spend certain property Plant Equipment Levy funds in accordance with Chapter 298.3.	See response and corrective action plan at 04-IV-M.	June 30, 2005	Patricia Schroeder

McGladrey & Pullen

Certified Public Accountants

To the Board of Education
Des Moines Independent Community School District
Des Moines, Iowa

In connection with our audit of the financial statements of Des Moines Independent Community School District for the year ended June 30, 2004, we have made certain observations. The purpose of this letter is to summarize those observations and provide recommendations, which we believe will assist management in improving internal and administrative controls and operational efficiency.

Cash Receipts

The child care department maintains an accounts receivable subledger on a separate system from the general ledger. The childcare accounts receivable subledger is currently not being reconciled to the general ledger. We recommend the subledger be reconciled on at least a quarterly basis.

Expenditures

During our testing of internal controls over expenditures, we noted some of the reconciliations used to tie expense detail to expenditure approved by the Board did not sum properly. We recommend the reconciliation is reviewed for accuracy to ensure the Board is properly reviewing and approving all expenditures made by the District.

Capital Assets

- Supervisory personnel in each department reconciled property and equipment records to the general ledger at year-end only. We recommend this be done quarterly to ensure property and equipment expenditures are being properly capitalized and to ensure capital outlay expenditures are being coded to the proper accounts.
- During our testing of internal controls, we noted the review of actual capital expenditures to capital budget is not documented. We recommend the individual verifying the actual expenditures to the budget initial or sign off on this verification to provide evidence that the review took place and to ensure only capital items budgeted for have been purchased.
- The District receives invoices from contractors for ongoing projects which only includes a period end date on the invoice and not the actual service period. This makes it difficult for the District to properly estimate the amount of construction-in-progress and related retainage. While most contractors bill monthly as requested by the District, it is not always the contractors policy to do so if minimal work is completed on the job. The District should request the contractor to include both a beginning and ending period date.

Internal Audit Recommendations

Through the audit process, we obtained all special review reports issued throughout the year by the Internal Audit department and noted some recommendations issued by the Internal Audit department have not been implemented by the District. We recommend the District either implement the Internal Audit department recommendations or respond to recommendations with a disposition of the decision to not implement the procedures.

Pensions

The District amortizes the discounts and premiums paid on investments over the life of the bond for the pension retirement plan. As the District is required to book their investments to fair value, amortization of these discounts and premiums is not considered necessary.

Miscellaneous

The District invoices other districts for tuitioned-in students; however, the invoices do not include the name and number of students billed. We recommend the District include this documentation with their billings to ensure all tuitioned-in students are properly billed.

Information Technology

With the implementation of a new Enterprise Resource Planning (ERP) system, a number of the following items may be resolved in the near future. The current financial accounting system has inherent limitations that do not allow for functions such as providing and retaining an audit trail of transactions or changes made to human resource files. These sorts of functions are integrated within the framework of an ERP system. The current limitations include:

- Records of system failures, performance problems and requests for system changes are not maintained by the District. We recommend the District maintain these records to be used to evaluate the effectiveness of the development and maintenance functions of the system and to assess whether the current system is meeting the needs of the District.
- The transaction file does not provide identification of the specific source of each entry, except for payroll time and attendance. We recommend the source of the transaction be added to the file.
- The District utilizes a query of employees' absences to determine the amount of the early retirement obligation. During our testing, we noted that the payroll records did not agree with the query. We recommend the District review the query for accuracy in order to determine the payroll records are properly captured.
- The District only records retainage payables on "large" projects. We recommend the District track and record retainage payables on all projects, as the services have been provided at the time of billing.

Single Audit Testing

- While testing Title I, special education, and Headstart programs, we noted the Human Resources department forwards board approved salary schedules to the Payroll department without indicating authentication. We recommend that the Human Resources department sign and date the schedules before forwarding them to the Payroll department to ensure authenticity.
- We noted the District did not receive direct communication or documentation of the nonpublics' election to have their portion of the Title II funds managed by Heartland AEA 11. Without knowing the nonpublics' choice, funds could have been incorrectly disbursed to Heartland AEA 11. We recommend the District obtain direct communication or documentation from the nonpublics' or copies of the assurance forms sent to Heartland AEA 11 from the nonpublics verifying the nonpublics' decision.

This report is intended solely for the information and use of the Board of Education, audit committee, management, and others within the District and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey & Pullen, LLP

Davenport, Iowa
November 4, 2004