Iowa City Community School District

Comprehensive Annual Financial Report

Year Ended June 30, 2004

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Iowa City Community School District

Board of Education and School District Officials
Year Ended June 30, 2004

Name	Title	Term Expires
Board of Education		
Before September 2003 election:		
Lauren Reece	President	2005
Don Jackson	Vice President	2005
Jan Leff	Board Member	2003
Peter Wallace	Board Member	2003
David Franker	Board Member	2004
Matt Goodlaxon	Board Member	2004
Toni Cilek	Board Member	2005
After September 2003 election:		
Lauren Reece	President	2005
Don Jackson	Vice President	2005
David Franker	Board Member	2004
Matt Goodlaxon	Board Member	2004
Toni Cilek	Board Member	2005
Jan Leff	Board Member	2006
Peter Wallace	Board Member	2006
School District Officials		
Dr. Lane Plugge	Superintendent	
Paul M. Bobek	Secretary and Treasurer	Appointed
Kirsten H. Frey	Attorney	Appointed
Thomas W. Foley	Attorney	Appointed

McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report

To the Board of Education
Iowa City Community School District
Iowa City, Iowa

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Iowa City 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 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. 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 audits provide 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 Iowa City 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 September 22, 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 13 and budgetary comparison information on pages 46 and 47 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 required supplementary information. However, we did not audit the information and express no opinion thereon.

McGladrey & Pullen, LLP is a member firm of RSM International -
an affiliation of separate and independent legal entities.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Iowa City Community School District's basic financial statements. The combining nonmajor fund financial statements and other statements listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations* and is 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 stated, in all material respects, in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Davenport, Iowa
September 22, 2004

Iowa City Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follows:

Financial Highlights

General Fund revenues increased from $77,392,040 in fiscal 2003 to $79,206,742 in fiscal year 2004, while General Fund expenditures increased from $76,126,219 in fiscal 2003 to $80,999,940 in fiscal 2004. This resulted in a decrease in the District's General Fund balance from $13,873,181 in fiscal 2003 to $11,864,723 in fiscal 2004.

The increase in General Fund revenues was attributable to an increase in property tax and state and federal grant revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures.

A decline in interest rates during the past three fiscal years resulted in interest earnings in the General Fund alone to decrease from $285,650 in fiscal year 2003 to $116,898 in fiscal year 2004.

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District.

- The first two statements are District-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The governmental fund statements explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for proprietary funds offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for fiduciary funds provides information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also includes notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

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

Figure A-1
Iowa City Community School District Annual Financial Report

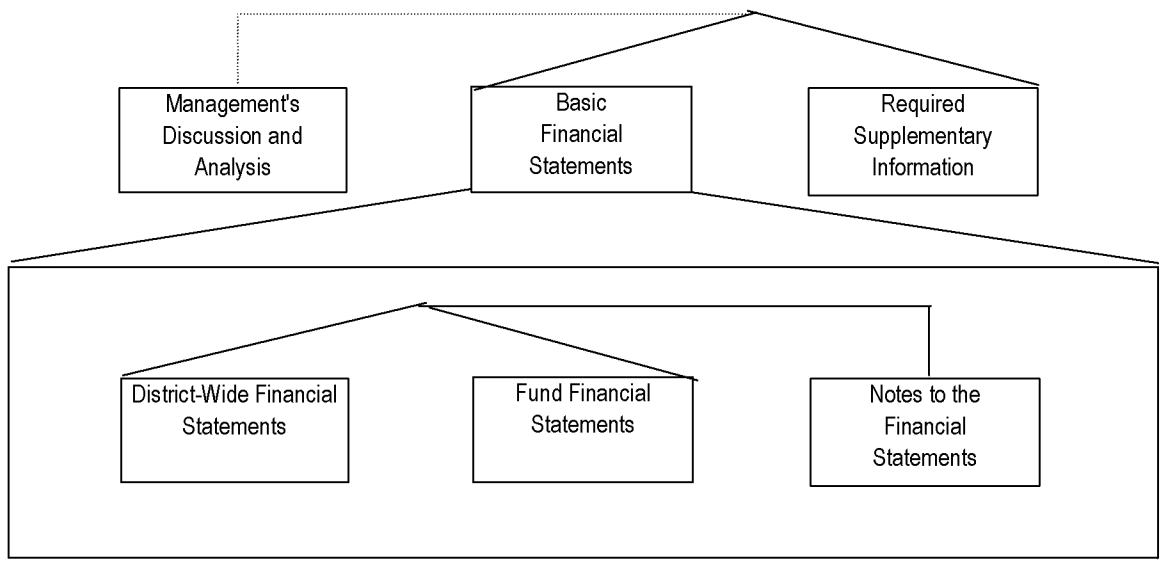

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

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

	District-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	Statement of net assets Statement of activities	Balance sheet Statement of revenues, expenditures, and changes in fund balances	Statement of fund net assets Statement of revenues, expenses and changes in net assets Statement of cash flows	Statement of fiduciary net assets Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

District-Wide Statements

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

The two District-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position to assess the District's overall health; you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

- Governmental activities: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.

- Business-type activities: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included as a business-type activity.

Fund Financial Statements

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

- Some funds are required by state law and by bond covenants.

- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- Governmental funds. Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information following the governmental fund statements explains the relationship or differences between the two statements.

- The District's governmental funds include the General Fund, Physical Plant & Equipment Levy, Management, Student Activity, Debt Service Fund and Capital Projects Fund.

- Proprietary funds. Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.

  - ✓ The District's enterprise funds, one type of proprietary fund, are encompassed In the District's business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

  - ✓ Internal service funds, the other type of proprietary fund, are optional and available to report activities that provide supplies and services for other District programs and activities. The District currently uses an Internal Service Fund to account for its self-insured health insurance funds.

- Fiduciary Funds. The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency funds.

  - ✓ Private-Purpose Trust Fund – The District accounts for assets for scholarships for individual students in this fund according to the terms of the donor's request.

  - ✓ Agency Fund – These are funds for which the District administers and accounts for certain assets in a fiduciary capacity as an agent on behalf of others.

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

Financial Analysis of the District as a Whole

Net assets: Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004 compared to 2003:

Figure A-3

Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	2004	2003	**2004**	2003	**2004**	2003	2003-2004
Current and other assets	**$ 101,972,426**	$ 72,174,835	**$ 1,514,417**	$ 1,188,124	**$ 103,486,843**	$ 73,362,959	$ 30,123,884
Capital assets	**53,130,930**	46,405,519	**186,141**	192,320	**53,317,071**	46,597,839	6,719,232
Total assets	**155,103,356**	118,580,354	**1,700,558**	1,380,444	**156,803,914**	119,960,798	36,843,116
Long-term obligations	**37,166,825**	10,095,000	**-**	-	**37,166,825**	10,095,000	27,071,825
Other liabilities	**53,008,942**	44,799,097	**125,570**	104,281	**53,134,512**	44,903,378	8,231,134
Total liabilities	**90,175,767**	54,894,097	**125,570**	104,281	**90,301,337**	54,998,378	35,302,959
Net assets:							
Invested in capital assets, net of related debt	**46,666,309**	45,605,519	**186,141**	192,320	**46,852,450**	45,797,839	1,054,611
Restricted	**186,789**	3,742,288	**-**	-	**186,789**	3,742,288	(3,555,499)
Unrestricted	**18,074,491**	14,338,450	**1,388,847**	1,083,843	**19,463,338**	15,422,293	4,041,045
Total net assets	**$ 64,927,589**	$ 63,686,257	**$ 1,574,988**	$ 1,276,163	**$ 66,502,577**	$ 64,962,420	$ 1,540,157

The District's combined net assets were greater as of June 30, 2004 than June 30, 2003. The increase occurred primarily in the governmental funds as a result of the $29 and $10 million in general obligation bonds issued during the years ended June 30, 2004 and 2003, respectively. The District expended proceeds for capital assets during the year and has unexpended proceeds of approximately $33 million as of June 30, 2004.

Changes in net assets – Figure A-4 shows the changes in net assets for the year ended June 30, 2004 and 2003:

Figure A-4

Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total School District	
	2004	2003	**2004**	2003	**2004**	2003
Revenues:						
Program revenues:						
Charges for service and sales	**$ 2,813,373**	$ 1,980,988	**$ 1,820,661**	$ 1,711,059	**$ 4,634,034**	$ 3,692,047
Operating grants and contributions	**7,822,835**	8,082,908	**1,181,182**	1,029,798	**9,004,017**	9,112,706
Capital grants and contributions	**268,404**	33,792	**-**	-	**268,404**	33,792
General revenues:						
Property taxes	**42,385,863**	39,060,701	**-**	-	**42,385,863**	39,060,701
Unrestricted state grants	**32,984,278**	33,006,442	**-**	-	**32,984,278**	33,006,442
Unrestricted investment earnings	**157,253**	317,551	**10,986**	13,962	**168,239**	331,513
Other	**3,017,626**	3,303,383	**-**	-	**3,017,626**	3,303,383
Total revenues	**89,449,632**	85,785,765	**3,012,829**	2,754,819	**92,462,461**	88,540,584
Program expenses:						
Governmental activities:						
Instruction	**57,327,726**	54,192,731	**-**	-	**57,327,726**	54,192,731
Support services	**26,756,647**	25,525,640	**-**	-	**26,756,647**	25,525,640
Noninstructional programs	**266,996**	255,004	**-**	2,501,061	**266,996**	2,756,065
Other expenses	**3,856,931**	4,033,202	**-**	-	**3,856,931**	4,033,202
Business-type activities, nutritional services	**-**	-	**2,714,004**	-	**2,714,004**	-
Total expenses	**88,208,300**	84,006,577	**2,714,004**	2,501,061	**90,922,304**	86,507,638
Change in net assets	**$ 1,241,332**	$ 1,779,188	**$ 298,825**	$ 253,758	**$ 1,540,157**	$ 2,032,946

Property tax and unrestricted state grants account for 82 and 84 percent of the total revenue for the years ended June 30, 2004 and 2003, respectively. The District's expenses primarily relate to instruction and support services which account for 92 and 95 percent of the total expenses for the years ended June 30, 2004 and 2003, respectively.

Governmental Activities

Revenues for governmental activities were $89,449,632 and expenses were $88,208,300. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues and utilizing some of its fund balances.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, noninstructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	2004		2003	
	Total Cost of Services	**Net Cost of Services**	Total Cost of Services	Net Cost of Services
Instruction	**$ 57,327,726**	**$ (50,481,781)**	$ 54,192,731	$ 48,407,986
Support services	**26,756,647**	**(26,155,102)**	25,525,640	24,596,534
Noninstructional programs	**266,996**	**(114,148)**	255,004	101,555
Other expenses	**3,856,931**	**(1,552,657)**	4,033,202	802,814
Totals	**$ 88,208,300**	**$ (78,303,688)**	$ 84,006,577	$ 73,908,889

- The cost financed by users of the District's programs was $2,813,373 for 2004 and $1,980,988 for 2003.
- Federal and state governments subsidized certain programs with grants and contributions totaling $8,091,239 for 2004 and $8,116,700 for 2003.
- The remaining net cost of governmental activities was financed with property tax, state foundation aid and interest income.

Business-Type Activities

Revenues of the District's business-type activities were $3,012,829 and expenses were $2,714,004. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and interest income.

Financial Analysis of the District's Funds

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

Governmental Fund Highlights: The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of $50,552,677, well above last year's ending fund balances of $28,026,589. However, the primary reason for the increase in combined fund balances in fiscal 2004 is due to approximately $29 million of general obligation bond proceeds received in fiscal 2004 unspent as of year-end.

- The District's General Fund financial position is the product of many factors. The primary factor resulting in the General Fund's decreased fund balance is attributable to an unusual purchase of text books and salary settlements in excess of additional revenues.

- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from a balance of $1,856,755 in fiscal 2003 to $1,641,375 in fiscal 2004. While revenues remained approximately the same, the timing of projects resulted in greater expenditures in 2004. In addition, the District purchased 60 acres of land in anticipation of the construction of a new elementary and a new junior high facility as part of the $39 million bond issue approved in February 2003.

- As previously noted, the Capital Projects Fund balance increased due to the sale of $29,000,000 in general obligation bonds during fiscal 2004. The District ended fiscal 2003 with a balance of $10,001,895. Fiscal 2004 ended with a balance of $32,896,901, consisting primarily of bond proceeds which will be expended as the projects are completed.

- The "other" Governmental Funds (the Management, Student Activity, and Debt Service Funds) balances have remained relatively steady, increasing in total to $4,149,678 for 2004, from $2,294,755 in the previous year. This increase is primarily attributable to an increase in Management Fund Levy.

Proprietary Fund Highlights: The School Nutrition Fund net assets increased from $1,276,163 as of June 30, 2003 to $1,512,326 as of June 30, 2004, representing an increase of approximately 19% for 2004 compared to an increase of 25% for 2003. The District has continued a trend of increased lunches served and higher sales of nonproduced foods and maintained a stable work force. These items have helped to maintain revenue margins and a related increase in revenue and net assets.

The Internal Service Fund, including the District's self insured health insurance funds, increased net assets from $540 in 2003 to $1,691,157 in 2004 as a result of increase in charges to cover increase in cost of health insurance.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except its internal service, private-purpose trust, and agency funds. 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 on the GAAP basis. Over the course of the year, the District amended its annual operating budget one time to reflect additional revenue and expenditures associated with programs and activities added or changed during the fiscal. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

Legal Budgetary Highlights: The District's total actual revenues were approximately $4,440,013 more than the total budgeted revenues, variance of 5% from the final budget.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the support services and noninstructional functional areas due to the timing of expenditures paid at year-end without sufficient time to amend the certified budget. However, total actual expenditures were under budgeted expenditures by $34,786,477.

Capital Asset and Debt Administration

Capital Assets: As of June 30, 2004, the District had invested $53 million, net of accumulated depreciation, in the broad range of capital assets, including land, buildings, athletic facilities, computers, and equipment. (See Figure A-6) This amount represents a net increase of $6,719,232 from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was $3,472,312.

The original costs of the District's capital assets was $98 million. Governmental funds account for $97.5 million with the remainder of $.5 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the land and buildings and construction-in-progress categories. The land increased primarily due to the acquisition of 60 acres in anticipation of the construction of new buildings as previously indicated. The buildings increased primarily from the cost of improvements and capital expenditures during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	2004	2003	**2004**	2003	**2004**	2003	2003-2004
Land	**$ 3,001,989**	$ 1,861,769	**$ -**	$ -	**$ 3,001,989**	$ 1,861,769	$ 1,140,220
Construction-in-progress	**6,418,751**	-	**-**	-	**6,418,751**	-	6,418,751
Buildings	**40,373,133**	39,909,255	**-**	-	**40,373,133**	39,909,255	463,878
Improvements other than buildings	**1,599,137**	1,532,976	**-**	-	**1,599,137**	1,532,976	66,161
Furniture and equipment	**1,737,920**	3,101,519	**186,141**	192,320	**1,924,061**	3,293,839	(1,369,778)
Total	**$ 53,130,930**	$ 46,405,519	**$ 186,141**	$ 192,320	**$ 53,317,071**	$ 46,597,839	$ 6,719,232

Long-Term Debt: As of June 30, 2004, the District had $39,872,421 in general obligation and other long-term debt outstanding. This represents an increase of approximately 28 million from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

In February 2003, the District's voters authorized the issuance of $39,000,000 in general obligation bonds to pay for construction of a new elementary building, new junior high, new alternative high school, the purchase of land, and improvements to the two existing high schools and five elementary buildings. Planning for the projects started in fiscal 2003 and $10 million bonds were sold during fiscal 2003 and the remaining $29 million in bonds were sold in February 2004. The District had total outstanding bonded indebtedness at June 30, 2003 of $10,000,000 and $38,495,000 as of June 30, 2004.

The District also had an outstanding real estate contract payable from the Physical Plant and Equipment Levy Fund of $800,000 as of June 30, 2003 and $600,000 as of June 30, 2004. This contract contained a provision allowing the District to pay in full any remaining principal balance on or after January 1, 2005.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	2003-2004
General obligation bonds	**$ 38,495,000**	$ 10,000,000	$ 28,495,000
Real estate contract payable	**600,000**	800,000	(200,000)
Early retirement	**411,783**	494,713	(82,930)
Compensated absences	**365,638**	341,294	24,344
Totals	**$ 39,872,421**	$ 11,636,007	$ 28,236,414

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.

- The national recession that has adversely impacted the State of Iowa's budget has translated into reduced levels of state aid funding for public education in the state. An across the board cut of 4.3 percent incurred in October of 2001, and another 2.5 percent cut was announced in October of 2003. The District has been involved with contract negotiations for fiscal 2004 and anticipates that any settlements will exceed the allowable growth percentage from the state legislature for that year. The contract settlements with employee groups that exceed the rate of growth in state funding will have an adverse impact on the District's General Fund budget and require the use of District reserves.

- The Iowa school funding formula is highly dependent upon student enrollment. The District has experienced small enrollment growth over the last couple of years. Maintaining or increasing these enrollment levels will be a critical element for maintaining a solid financial base.

- As previously mentioned, the District will be constructing several new buildings as well as additions on other buildings during the next three years. The anticipated capital expenditures related to these projects are currently higher than originally budgeted. Thus, the projects will have to be either modified for the amount of bond proceeds or additional expenditures made from the Physical Plant and Equipment Levy Fund as allowed by law. In addition, the additional square footage added by these projects will result in additional operating costs to the General Fund.

- The District's current Physical Plant and Equipment Levy expires in June 2005. The Board of Directors is currently reviewing the options related to renewal and increasing this levy. In September 2004, the Community voted to renew for ten years the PPEL at a rate not to exceed $1.34.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Paul Bobek, District Secretary/Treasurer and Executive Director of Administrative Services, Iowa City Community School District, 509 S. Dubuque Street, Iowa City, Iowa 52240.

Iowa City Community School District

Statement of Net Assets
June 30, 2004

Assets	Governmental Activities	Business Type Activities	Total
Current assets:			
Cash and cash equivalents	$ 58,894,533	$ 1,358,747	$ 60,253,280
Receivables:			
Accounts receivable	228,192	-	228,192
Property tax:			
Current year	224,501	-	224,501
Succeeding year	40,498,916	-	40,498,916
Other	485	-	485
Due from other governments	1,619,685	-	1,619,685
Internal balances	(77,353)	77,353	-
Inventories	-	46,550	46,550
Prepaid expenses	528,164	31,767	559,931
Total current assets	101,917,123	1,514,417	103,431,540
Noncurrent assets:			
Land	3,001,989	-	3,001,989
Construction-in-progress	6,418,751	-	6,418,751
Depreciable capital assets, net of accumulated depreciation	43,710,190	186,141	43,896,331
Unamortized bond issuance costs	55,303	-	55,303
Total noncurrent assets	53,186,233	186,141	53,372,374
Total assets	155,103,356	1,700,558	156,803,914

See Notes to Basic Financial Statements.

Liabilities	Governmental Activities	Business Type Activities	Total
Current liabilities:			
Accounts payable	$ 2,824,633	$ 14,426	$ 2,839,059
Salaries and benefits payable	3,804,737	111,144	3,915,881
Claims payable	2,318,479	-	2,318,479
Accrued interest payable	356,618	-	356,618
Deferred revenue, succeeding year property tax	40,498,916	-	40,498,916
Grant revenues, unearned	178,138	-	178,138
General obligation bonds	2,050,000	-	2,050,000
Real estate contract	200,000	-	200,000
Early retirement	411,783	-	411,783
Compensated absences	365,638	-	365,638
Total current liabilities	53,008,942	125,570	53,134,512
Noncurrent liabilities:			
Unamortized premium on general obligation bonds	321,825	-	321,825
General obligation bonds	36,445,000	-	36,445,000
Real estate contract	400,000	-	400,000
Total noncurrent liabilities	37,166,825	-	37,166,825
Total liabilities	90,175,767	125,570	90,301,337
Net Assets			
Invested in capital assets, net of related debt	46,666,309	186,141	46,852,450
Restricted for:			
Phase III	93,336	-	93,336
Debt service	93,453	-	93,453
Unrestricted	18,074,491	1,388,847	19,463,338
Total net asset	$ 64,927,589	$ 1,574,988	$ 66,502,577

Iowa City Community School District

Statement of Activities
Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues: Charges for Services and Sales	Program Revenues: Operating Grants, and Contributions	Program Revenues: Capital Grants, and Contributions
Governmental Activities				
Instruction:				
Regular instruction	$ 38,967,687	$ 1,606,881	$ 1,851,308	$ -
Special instruction	17,420,486	1,026,845	2,342,193	-
Other instruction	939,553	18,718	-	-
	57,327,726	2,652,444	4,193,501	-
Support services:				
Student services	2,555,746	-	349,810	-
Instructional services	5,493,335	-	-	-
Administration services	8,655,750	-	60,872	-
Operation and maintenance	7,257,390	4,448	-	-
Transportation services	2,794,426	9,818	176,597	-
	26,756,647	14,266	587,279	-
Noninstructional programs	266,996	146,663	6,185	-
Other:				
Facilities acquisition	-	-	-	268,404
Long-term debt interest	693,336	-	-	-
AEA flowthrough	3,035,870	-	3,035,870	-
Depreciation (unallocated)	127,725	-	-	-
	3,856,931	-	3,035,870	268,404
Total governmental activities	88,208,300	2,813,373	7,822,835	268,404
Business-Type Activities				
Nutritional services	2,714,004	1,820,661	1,181,182	-
Total primary government	$ 90,922,304	$ 4,634,034	$ 9,004,017	$ 268,404
General Revenues:				
Property taxes levied for:				
General purposes				
Debt service				
Capital outlay				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
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	Total
$ (35,509,498)	$ -	$ (35,509,498)
(14,051,448)	-	(14,051,448)
(920,835)	-	(920,835)
(50,481,781)	-	(50,481,781)
(2,205,936)	-	(2,205,936)
(5,493,335)	-	(5,493,335)
(8,594,878)	-	(8,594,878)
(7,252,942)	-	(7,252,942)
(2,608,011)	-	(2,608,011)
(26,155,102)	-	(26,155,102)
(114,148)	-	(114,148)
268,404	-	268,404
(693,336)	-	(693,336)
-	-	-
(127,725)	-	(127,725)
(552,657)	-	(552,657)
(77,303,688)	-	(77,303,688)
-	287,839	287,839
(77,303,688)	287,839	(77,015,849)
38,274,234	-	38,274,234
913,381	-	913,381
3,198,248	-	3,198,248
32,984,278	-	32,984,278
157,253	10,986	168,239
3,017,626	-	3,017,626
78,545,020	10,986	78,556,006
1,241,332	298,825	1,540,157
63,686,257	1,276,163	64,962,420
$ 64,927,589	$ 1,574,988	$ 66,502,577

Iowa City Community School District

Balance Sheet - Governmental Funds
June 30, 2004

Assets	General	Physical Plant and Equipment	Capital Projects	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	$ 14,328,188	$ 1,995,341	$ 34,597,077	$ 4,148,956	$ 55,069,562
Receivables:					
Property tax:					
Current year	181,002	19,060	-	24,439	224,501
Succeeding year	32,179,201	3,341,925	-	4,977,790	40,498,916
Other	-	-	-	485	485
Due from other funds	733	-	-	-	733
Due from other governments	1,618,645	1,040	-	-	1,619,685
Prepaid expenses	528,164	-	-	-	528,164
Total assets	$ 48,835,933	$ 5,357,366	$ 34,597,077	$ 9,151,670	$ 97,942,046
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 683,395	$ 374,066	$ 1,700,176	$ 23,758	$ 2,781,395
Salaries and benefits payable	3,804,737	-	-	-	3,804,737
Due to other funds	14,691	-	-	444	15,135
Deferred revenue:					
Succeeding year property tax	32,179,201	3,341,925	-	4,977,790	40,498,916
Grant revenues	289,186	-	-	-	289,186
Total liabilities	36,971,210	3,715,991	1,700,176	5,001,992	47,389,369
Fund balance:					
Reserved for:					
Phase III	93,336	-	-	-	93,336
Prepaid expenses	528,164	-	-	-	528,164
Grant programs	1,207,277	-	-	-	1,207,277
Debt service	-	-	-	450,071	450,071
Unreserved:					
Designated	4,856,218	-	-	-	4,856,218
Undesignated reported in:					
General Fund	5,179,728	-	-	-	5,179,728
Special revenue funds	-	1,641,375	-	3,699,607	5,340,982
Capital Projects Fund	-	-	32,896,901	-	32,896,901
Total fund balances	11,864,723	1,641,375	32,896,901	4,149,678	50,552,677
Total liabilities and fund balances	$ 48,835,933	$ 5,357,366	$ 34,597,077	$ 9,151,670	$ 97,942,046

See Notes to Basic Financial Statements.

Iowa City Community School District

Reconciliation of Total Governmental Funds Balances to Net Assets of Governmental Activities
June 30, 2004

Total governmental fund balances		$ 50,552,677
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		53,130,930
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		111,048
Internal service funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets:		
Current assets	$ 4,053,163	
Internal balances	(289)	
Current liabilities	(2,361,717)	1,691,157
Internal service funds allocated to business-type activities		(62,662)
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(356,618)
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds:		
General obligation bonds, current	(2,050,000)	
General obligation bonds, noncurrent	(36,445,000)	
Real estate contract payable, current	(200,000)	
Real estate contract payable, noncurrent	(400,000)	
Early retirement, current	(411,783)	
Compensated absences, current	(365,638)	
Unamortized premium on general obligation bonds	(321,825)	
Unamortized bond issuance costs	55,303	(40,138,943)
Net assets of governmental activities		$ 64,927,589

See Notes to Basic Financial Statements.

Iowa City Community School District

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

	General
Revenues:	
Local sources:	
Local tax	$ 34,994,784
Tuition	1,675,367
Other	2,238,807
State sources	38,086,283
Federal sources	2,211,501
Total revenues	79,206,742
Expenditures:	
Current:	
Instruction:	
Regular instruction	34,938,857
Special instruction	16,916,123
Other instruction	844,082
	52,699,062
Support services:	
Student services	2,555,746
Instructional services	5,473,625
Administration services	6,756,959
Operation and maintenance	7,412,390
Transportation services	2,794,426
	24,993,146
Noninstructional programs	271,862
Other, AEA flowthrough	3,035,870
Capital outlay	-
Debt service:	
Principal	-
Interest and fiscal charges	-
	-
Total expenditures	80,999,940
Excess (deficiency) of revenues over expenditures	(1,793,198)
Other financing sources (uses):	
Transfers in	-
Transfers out	(215,260)
General obligation bonds issued	-
Premiums on general obligation bonds	-
Total other financing sources (uses)	(215,260)
Net change in fund balances	(2,008,458)
Fund balances, beginning of year	13,873,181
Fund balances, end of year	$ 11,864,723

See Notes to Basic Financial Statements.

Physical Plant and Equipment Levy	Capital Projects	Other Governmental Funds	Total Governmental Funds
$ 3,198,248	$ -	$ 4,192,831	$ 42,385,863
-	-	-	1,675,367
73,800	258,763	2,103,943	4,675,313
1,138	-	1,576	38,088,997
-	-	-	2,211,501
3,273,186	258,763	6,298,350	89,037,041
-	-	-	34,938,857
-	-	-	16,916,123
-	-	2,206,090	3,050,172
-	-	2,206,090	54,905,152
-	-	-	2,555,746
-	-	-	5,473,625
-	-	1,582,653	8,339,612
-	-	-	7,412,390
-	-	-	2,794,426
-	-	1,582,653	26,575,799
-	-	-	271,862
-	-	-	3,035,870
3,248,566	6,691,433	-	9,939,999
-	-	705,000	705,000
-	-	404,944	404,944
3,248,566	6,691,433	1,109,944	11,049,943
3,248,566	6,691,433	4,898,687	95,838,626
24,620	(6,432,670)	1,399,663	(6,801,585)
-	-	455,260	455,260
(240,000)	-	-	(455,260)
-	29,000,000	-	29,000,000
-	327,676	-	327,676
(240,000)	29,327,676	455,260	29,327,676
(215,380)	22,895,006	1,854,923	22,526,091
1,856,755	10,001,895	2,294,755	28,026,586
$ 1,641,375	$ 32,896,901	$ 4,149,678	$ 50,552,677

Iowa City Community School District

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

Net change in fund balances, total governmental funds			$ 22,526,091
Amounts reported for governmental activities in the statement of activities are different because:			
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as depreciation expense in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period:			
Capital outlay	$ 10,148,111		
Depreciation expense	(3,422,700)		6,725,411
Revenues in statement of activities that do not provide current financial resources are not reported as revenues in the funds, change in deferred revenues			111,048
Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets.			705,000
Interest on long-term debt in the statement of activities differs from the amount reported in governmental funds because interest is recorded as an expenditure in the funds when due. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.			(293,237)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:			
Change in early retirement	82,930		
Change in compensated absences	(24,344)		58,586
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue, $1,690,617, of the Internal Service Fund is reported with governmental activities less $953,000 recognized in the prior year statement of activities recognized in the Internal Service Fund in the current year.			737,617
Change in Internal Service Fund allocation to business-type activities.			(62,662)
Proceeds of long-term debt provide current financial resources to governmental funds but increase long-term liabilities in the statement of net assets.			(29,000,000)
Amortization of bond premium and bond issuance costs.			4,845
Bond premiums provide current financial resources to governmental funds but are amortized as an asset in the statement of net assets.			(327,676)
Bond issuance costs are an expenditure in the governmental funds but are amortized as a liability on the statement of net assets.			56,309
Change in net assets of governmental activities			$ 1,241,332

See Notes to Basic Financial Statements.

Iowa City Community School District

Statement of Net Assets
Proprietary Funds
June 30, 2004

	Nonmajor Enterprise Fund - School Nutrition	Internal Service Fund
Assets		
Current assets:		
Cash and cash equivalents	$ 1,358,747	$ 3,824,971
Accounts receivable	-	228,192
Due from other funds	14,691	-
Inventories	46,550	-
Prepaid expenses and deposits	31,767	-
Total current assets	1,451,755	4,053,163
Noncurrent assets, capital assets, net of accumulated depreciation	186,141	-
Total assets	1,637,896	4,053,163
Liabilities		
Current liabilities:		
Accounts payable	14,426	43,238
Salaries and benefits payable	111,144	-
Claims payable	-	2,318,479
Due to other funds	-	289
Total liabilities	125,570	2,362,006
Net Assets		
Invested in capital assets, net of related debt	186,141	-
Unrestricted	1,326,185	1,691,157
Total net assets	1,512,326	$ 1,691,157
Amounts reported for business-type activities in the statement of net assets are different because:		
Internal service funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	62,662	
Net assets to business-type activities	$ 1,574,988	

See Notes to Basic Financial Statements.

Iowa City Community School District

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

	Nonmajor Enterprise Fund - School Nutrition	Internal Service Funds
Operating revenue:		
Charges for services:		
Food sales	$ 1,820,661	$ -
Internal service charges	-	5,388,451
Employee contributions	-	2,082,527
Total operating revenue	1,820,661	7,470,978
Operating expenses:		
Food consumed	1,308,122	-
Salaries and benefits	1,089,688	-
Supplies, services, and repairs	121,126	-
Administrative expense	30,000	-
Depreciation	46,250	-
Food and meal delivery:		
Salaries and benefits	169,718	-
Truck expenses	8,400	-
Depreciation	3,362	-
Claims, losses, and administrative fees	-	5,702,031
Other	-	93,404
Total operating expenses	2,776,666	5,795,435
Operating income (loss)	(956,005)	1,675,543
Nonoperating revenues:		
Federal appropriations	949,889	-
State appropriations	35,844	-
Federal food commodities	195,449	-
Interest income	10,986	15,074
Total nonoperating revenues	1,192,168	15,074
Changes in net assets	236,163	1,690,617
Net assets, beginning of year	1,276,163	540
Net assets, end of year	$ 1,512,326	$ 1,691,157

See Notes to Basic Financial Statements.

Iowa City Community School District

Reconciliation of Changes in Net Assets of Enterprise Funds to the Statement of Activities
Year Ended June 30, 2004

Net changes in net assets in enterprise funds.	$	236,163
Amounts reported for proprietary activities in the statement of activities are different because:		
Internal service funds are used by management to charge the costs of various activities internally to individual funds. The net expense of certain activities of internal service funds is reported with business-type activities.		62,662
Change in net assets of business-type activities	$	298,825

See Notes to Basic Financial Statements.

Iowa City Community School District

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2004

	Nonmajor Enterprise Fund - School Nutrition	Internal Service Funds
Cash Flows from Operating Activities:		
Cash received from sales of breakfasts and lunches	$ 1,820,661	$ -
Cash received from charges for service	-	6,341,451
Cash received from employees for benefits	-	2,082,527
Cash payments to suppliers for goods and services	(1,249,262)	(50,166)
Cash payments to employees for services	(890,653)	-
Cash payments for employee benefits	(357,487)	-
Cash payments for claims, losses and administrative fees	-	(5,412,933)
Net cash provided by (used in) operating activities	(676,741)	2,960,879
Cash Flows from Noncapital Financing Activities:		
Operating grants received	985,733	-
Receipts from interfund accounts	12,712	289
Net cash provided by noncapital funding activities	998,445	289
Cash Flows from Capital and Related Financing Activities, acquisition of capital assets	(43,433)	-
Cash Flows from Investing Activities, interest on cash and cash equivalents	11,103	15,271
Net increase in cash and cash equivalents	289,374	2,976,439
Cash and Cash Equivalents:		
Beginning	1,069,373	848,532
Ending	$ 1,358,747	$ 3,824,971
Operating income (loss)	$ (956,005)	$ 1,675,543
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	$ 49,612	$ -
Federal food commodities consumed	195,449	-
Change in assets and liabilities:		
Decrease in purchased inventory	15,346	-
(Increase) decrease in prepaid expenses and deposits	(2,432)	953,000
Increase in accounts payable	10,023	43,238
Increase in salaries and benefits payable	11,266	-
Increase in claims payable	-	289,098
Total adjustments	279,264	1,285,336
Net cash provided by (used in) operating activities	$ (676,741)	$ 2,960,879
Noncash Investing, Capital and Financing Activities, food commodities donated to the District from the U.S. Department of Agriculture	$ 195,449	$ -

See Notes to Basic Financial Statements.

Iowa City Community School District

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	Private Purpose Trust Fund Winbigler Estate Trust Fund	Agency Funds
Assets, cash and cash equivalents	$ 71,550	$ 35,311
Liabilities, due to private individuals	-	35,311
Net Assets, reserved for needs of students in need of financial assistance	$ 71,550	$ -

See Notes to Basic Financial Statements.

Iowa City Community School District

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

	Private Purpose Trust Fund Winbigler Estate Trust Fund
Additions, local sources, interest	$ 435
Net assets, beginning of year	71,115
Net assets, end of year	$ 71,550

See Notes to Basic Financial Statements.

Note 1. Nature of Operations, Reporting Entity and Significant Accounting Policies

Nature of operations:

The Iowa City Community School District (the "District") is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the cities of Iowa City, Coralville, University Heights, Hills and North Liberty and the surrounding predominately agricultural territory in central Johnson County. The District is governed by a Board of Education whose members are elected on a nonpartisan basis.

Reporting entity:

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

The District participates in several jointly governed organizations for which the District is not financially accountable or that the nature and significance of the relationship with the District are such that exclusion does not cause the District's financial statements to be misleading or incomplete. Among those organizations are the Johnson County Conference Board, Iowa City Conference Board, Johnson County Compensation Board and the Iowa City Assessors Examining Board.

Significant accounting policies:

District-wide financial statements: The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

Note 1. Nature of Operations, Reporting Entity and Significant Accounting Policies (Continued)

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

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

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

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

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

Fund financial statements: Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

Fund accounting: The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, reserves, fund balance/net assets, revenues and expenditures or expenses, as appropriate. The District has the following funds:

Governmental Fund Types: Governmental fund types are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the District's major governmental funds:

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

Note 1. Nature of Operations, Reporting Entity and Significant Accounting Policies (Continued)

The Physical Plant and Equipment Levy Fund accounts for the property taxes levied and collected by the District to be used for the purchase and improvement of grounds; purchase, construction, and remodeling of buildings; and major equipment purchases.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of major capital facilities as authorized by the voters in the District.

The other governmental funds of the District are considered nonmajor and are as follows:

Special Revenue Funds: Accounts for the revenue sources that are legally restricted to expenditures for specific purposes.

Management Fund: Accounts for tort liability insurance premiums, unemployment compensation insurance claims and early retirement incentive payments.

Student Activity Fund: Accounts for money held by the District on behalf of the students who have raised these funds and are responsible for their disposition for co-curricular or extracurricular activities of the District.

Debt Service Fund: Accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. Revenue of the fund primarily consists of local property taxes.

Proprietary Fund Types: Proprietary fund types are used to account for the District's ongoing organizations and activities which are similar to those often found in the private sector. The enterprise fund's measurement focus is upon income determination, financial position and cash flows. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the District has elected to apply all applicable Financial Accounting Standards Board (FASB) pronouncements, issued on or before November 30, 1989, except for those pronouncements which conflict with or contradict GASB pronouncements.

Enterprise Funds: Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the District has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The following enterprise fund of the District is considered nonmajor:

School Nutrition Fund: Accounts for the food service operations of the District.

Internal Service Fund: The Internal Service Fund is used to account for goods or services provided by one department to other departments of the District on a cost reimbursement basis. The District's Internal Service Fund is used to account for the premium and claim payments for the self-insured health insurance plan for District employees and retirees.

Note 1. Nature of Operations, Reporting Entity and Significant Accounting Policies (Continued)

The District also reports the following fiduciary fund types:

Private Purpose Trust Fund: This fund is utilized to account for assets held by the District in a fiduciary capacity according to the terms of the donor's request.

Agency Funds: These funds are utilized to account for assets held by the District in the fiduciary capacity as an agent on behalf of others. The Agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's proprietary funds are charges for services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets and claims. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Note 1. Nature of Operations, Reporting Entity and Significant Accounting Policies (Continued)

Cash and cash equivalents: The cash balances of most District funds are nonpooled and separately invested. Cash investments in the Iowa Schools Joint Investment Trust are valued at amortized cost and nonnegotiable certificates of deposit are stated at cost.

The Iowa Schools Joint Investment Trust is a common law trust established under Iowa law and is administered by an appointed investment management company. The fair value of the position in the trust is the same as the value of the shares. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property tax receivable: Property taxes in the governmental funds are accounting for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Current year property tax receivable represents unpaid taxes for the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2003.

Due from other governments: Due from other governments represents amounts due from the State of Iowa, University of Iowa, other school districts, and other various grants, reimbursements and shared revenues.

Prepaid expenses: Prepaid expenses consist primarily of health and dental costs paid for the succeeding year.

Inventories: Inventories of the enterprise fund consist of food and supplies. The inventories are valued on a first-in, first-out basis, with purchased inventory valued at cost and government-contributed commodities valued at the contributed value as of the date received. The consumption method of accounting is applied to the governmental fund type inventories. Unused commodities at balance sheet date are reported as inventory.

Note 1. Nature of Operations, Reporting Entity and Significant Accounting Policies (Continued)

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

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

Description	Threshold
Land, buildings, and improvements other than buildings	$ 2,500
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,500
Vehicles	2,500

Description	Estimated Lives
Buildings	50 years
Improvements other than buildings	20 years
Furniture and equipment:	
School Nutrition Fund equipment	12 years
Other furniture and equipment	5 years
Vehicles:	
School Nutrition Fund Vehicles	5 years
Other vehicles	7 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.

Salaries and benefits payable: Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities. Earned but unpaid payroll as of June 30, 2004 has also been accrued as a liability as of June 30, 2004.

Deferred revenue: Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue also consists of the succeeding year's property tax receivable.

Note 1. Nature of Operations, Reporting Entity and Significant Accounting Policies (Continued)

Deferred revenue in the statement of net assets consists of the succeeding year's property tax receivable that will not be recognized as revenue until the year for which it is levied and unearned grant proceeds.

Compensated absences: District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the District-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect as of June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Self-insurance: The District is self-insured for health benefits. The District's premiums and claims are accounted for in the Internal Service Fund. Premiums are charged by the Internal Service Fund to operating funds based upon number of employees and selected coverage in each fund.

Bond Issuance Costs, Premiums and Discounts: Bond issuance costs, premiums and discounts are amortized over the life of the contracts using a method which approximates the interest method.

Fund balances: In the governmental fund financial statements, reservations of fund balances are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. A portion of the unreserved fund balance of the General Fund is designated for cash reserve because it may not be spent due to limitations established by the school finance formula (spending authority) as defined by the Code of Iowa. The remainder of the unreserved fund balance is not designated to any program or purpose and may be spent by the District.

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

Interfund activity: Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

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.

Budgets and Budgetary Control:

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

Note 2. Cash and Cash Equivalents

Deposits

Chapter 12C of the Code of Iowa requires all District funds be deposited into an approved depository and be either insured or collateralized.

As of June 30, 2004, the District's carrying amount of deposits with financial institutions totaled $23,670,745 with bank balances of $26,635,998. The District's deposits with financial institutions as of June 30, 2004 were entirely covered by federal depository insurance, collateralized with securities or letters of credit held by the District or the District's agent in the District's name, or by a multiple financial institution collateral pool 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.

Investments

The District is authorized by statute to invest public funds not currently needed for operating expenses in obligations of the United States government, its agencies and instrumentalities' certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the state of Iowa; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District's investments are categorized to give an indication of the level of risk assumed at year-end. The categories are defined as:

1. Insured or registered in the District's name or securities held by the District or its agent in the District's name.

2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name.

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

The following is a summary of the District's investments at year-end:

	Carrying Amount			
	Category			
	1	2	3	Fair Value
Obligations of Unites States government and its agencies	$ 2,523,125	$ -	$ -	$ 2,523,125
Investments not subject to risk categorization,				
Iowa Joint Investment Trust				34,163,058
				$ 36,686,183

Note 2. Cash and Cash Equivalents (Continued)

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

A reconciliation of cash and investments as shown in the financial statements is as follows:

Cash on hand	$	3,213
Deposits with financial institutions		23,670,745
Investments		36,686,183
	$	60,360,141
Government-wide financial statements of net assets, cash and investments	$	60,253,280
Statement of fiduciary assets and liabilities, cash and investments	$	106,861

Note 3. Interfund Receivables and Payables

Individual interfund receivable and payable balances as of June 30, 2004 are as follows:

Receivable Fund	Payable Fund		Amount
Nonmajor Enterprise Fund, School Nutrition	Major Fund, General Fund	$	14,691
Major Funds:	Nonmajor Funds:		
General Fund	Special Revenue Fund - Student Activity		444
General Fund	Internal Service Fund		289

The amounts due to the School Nutrition Fund are for lunches for supervisors and lunches and snacks for children of students enrolled in the District.

Note 4. Interfund Transfers

Detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer To	Transfer From		Amount
Nonmajor Funds:			
Special Revenue Funds:	Major Funds:		
Student Activity	General Fund	$	215,260
Debt Service	Physical Plant and Equipment Levy		240,000

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorization.

Note 5. Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

Governmental Activities	Balance, Beginning of Year	Increases	Decreases	Balance, End of Year
Capital assets not being depreciated:				
Land	$ 1,861,769	$ 1,140,220	$ -	$ 3,001,989
Construction-in-progress	-	6,418,751	-	6,418,751
Total capital assets not being depreciated	1,861,769	7,558,971	-	9,420,740
Capital assets being depreciated:				
Buildings	69,216,620	1,768,067	-	70,984,687
Improvements other than buildings	4,137,386	277,737	-	4,415,123
Furniture, equipment and vehicles	12,067,277	543,336	-	12,610,613
Total capital assets being depreciated	85,421,283	2,589,140	-	88,010,423
Less accumulated depreciation for:				
Buildings	29,307,365	1,304,189	-	30,611,554
Improvements other than buildings	2,604,410	211,576	-	2,815,986
Furniture, equipment and vehicles	8,965,758	1,906,935	-	10,872,693
Total accumulated depreciation	40,877,533	3,422,700	-	44,300,233
Total capital assets being depreciated, net	44,543,750	(833,560)	-	43,710,190
Governmental activities capital assets, net	$ 46,405,519	$ 6,725,411	$ -	$ 53,130,930

Business-Type Activities	Balance, Beginning of Year	Increases	Decreases	Balance, End of Year
Furniture, equipment and vehicles	$ 482,102	$ 43,433	$ (8,666)	$ 516,869
Less accumulated depreciation	289,782	49,612	(8,666)	330,728
Business-type activities capital assets, net	$ 192,320	$ (6,179)	$ -	$ 186,141

Note 5. Capital Assets (Continued)

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	$ 2,544,196
Special	504,363
Other	95,471
Support services:	
Instructional services	19,710
Administration services	21,814
Operation and maintenance	109,421
	3,294,975
Unallocated depreciation	127,725
Total governmental activities depreciation expense	$ 3,422,700
Business-type activities, food services	$ 49,612

Note 6. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
General obligation bonds	$ 10,000,000	$ 29,000,000	$ 505,000	$ 38,495,000	$ 2,050,000
Real estate contract payable	800,000	-	200,000	600,000	200,000
Early retirement	494,713	411,783	494,713	411,783	411,783
Compensated absences	341,294	39,135	14,791	365,638	365,638
Total	$ 11,636,007	$ 29,450,918	$ 1,214,504	$ 39,872,421	$ 3,027,421

Early retirement: The District provides early retirement incentives for certain employees who meet certain qualifications as established by the Board of Education. The cost of the incentives is borne by the District in whole. Eligible participants can not, and do not, contribute to the incentive program.

Early retirement participation is based on the following criteria:

1. It is available to teachers and administrators who are between the ages of 55 and 65 as of June 30. The Board of Directors reserves the right to limit the number of early retirements.

2. The employee has completed at least twenty (20) years of service to the District and has been actively employed during the school year that they request early retirement benefits.

Note 6. Long-Term Liabilities (Continued)

3. The employee must be eligible for the receipt of IPERS retirement benefits or allowance pursuant to Chapter 97B of the Code of Iowa.

4. The employee submits a written notification of their intent to apply for early retirement benefits prior to March 1 in the year the early retirement is to begin.

5. The employee may continue to participate in the District's health and dental insurance programs until age 65, subject to carrier contract requirements and payment of all premiums, if the employee has been participating in District health and dental insurance programs prior to retirement.

6. Benefits offer to teachers and administrators shall be either:

   A. 70% of current year's salary based on average full time equivalence (FTE) status for the past ten years, or

   B. 50% of current year's salary based on average FTE status for the past ten years plus the District paying the single premium for the District's group health insurance program until full retirement age as defined by the Social Security Administration for retirees that are age 59 or older. Retirees under age 59 are responsible for paying their health insurance premium to the District until age 59. Administrators selecting this option will receive 70% of current year's salary based on the average FTE for the past ten years, minus 20% of the MA+30, 14th step salary on the teachers' salary schedule.

During the year ended June 30, 2004, 14 District employees requested early retirement, to be payable during the year ending June 30, 2005. The benefits to be paid to these employees will be made in October 2004, and total $411,783. During the year ended June 30, 2004, the District paid $494,713 of early retirement benefits approved during the year ended June 30, 2003 from the Management Fund. In addition, $1,450,972 of insurance benefits is accrued in the Health Self Insurance Internal Service Fund.

Compensated absences: Compensated absences are generally liquidated by the General Fund.

Bonds payable: Details of the District's general obligation bond indebtedness as of June 30, 2004 are as follows. General obligation bonds Series 2003 with an original issue amount of $10,000,000 maturing through June 2018 with rates ranging from 3% to 3.875%. The proceeds were used to finance the construction of school buildings and acquisition of land for future school building site.

Note 6. Long-Term Liabilities (Continued)

Year Ending June 30,	Bond Issue of May 1, 2003 Interest Rates	Principal	Interest
2005	3.000%	$ 550,000	$ 321,353
2006	3.000	565,000	304,853
2007	3.000	580,000	287,902
2008	3.000	595,000	270,502
2009	3.000	615,000	252,652
2010	3.250	630,000	234,202
2011	3.400	655,000	213,728
2012	3.400	675,000	191,458
2013	3.400	700,000	168,508
2014	3.500	725,000	144,708
2015	3.600	755,000	119,332
2016	3.650	785,000	92,152
2017	3.750	815,000	63,500
2018	3.875	850,000	32,938
		$ 9,495,000	$ 2,697,788

General obligation bond Series 2004 with an original issue of $29,000,000 maturing through 2018 with rates ranging from 2% to 4%. The proceeds were used to finance the construction of school buildings and acquisition of land for future school building site.

Year Ending June 30,	Bond Issue of March 1, 2004 Interest Rates	Principal	Interest
2005	2.00%	$ 1,500,000	$ 1,223,438
2006	2.50	1,800,000	948,750
2007	2.50	1,800,000	903,750
2008	2.75	1,900,000	858,750
2009	2.75	1,900,000	806,500
2010	3.00	1,900,000	754,250
2011	3.25	2,000,000	697,250
2012	3.25	2,100,000	632,250
2013	4.00	2,100,000	564,000
2014	4.00	2,200,000	480,000
2015	4.00	2,300,000	392,000
2016	4.00	2,400,000	300,000
2017	4.00	2,500,000	204,000
2018	4.00	2,600,000	104,000
		$ 29,000,000	$ 8,868,938

Note 6. Long-Term Liabilities (Continued)

Real estate contract payable: The District entered into an agreement on August 5, 2002, to purchase a parcel of land in North Liberty, Iowa, for the site of a new elementary and junior high school. The closing on the purchase occurred on March 1, 2003. The cost of the land was $940,000, and a downpayment of $140,000 was required, and paid, at the closing. In addition, the contract does have a provision that allows the District to prepay any amount of the balance without penalty after January 1, 2005. Details of the real estate contract for the balance of the purchase as of June 30, 2004 are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest
2005	6.0%	$ 200,000	$ 36,000
2006	6.0	200,000	24,000
2007	6.0	200,000	12,000
		$ 600,000	$ 72,000

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

Total assessed valuation	$ 3,107,894,455
Debt limit, 5% of total assessed valuation	$ 155,394,723
Amount of debt applicable to debt limitation:	
General obligation bonds	38,495,000
Real estate contract payable	600,000
Excess of debt limit over debt outstanding, legal debt margin	$ 116,299,723

Note 7. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.7% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were $2,869,839, $2,780,115 and $2,640,748 respectively, equal to the required contributions for each year.

Note 8. Risk Management

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

Note 8. Risk Management (Continued)

During the year ended June 30, 2004, employees of the District were covered by the District's health self-insurance plan. The District provided commercial insurance for dental claims as of October 1, 2003. The contributions made by the District are part of the negotiated agreements with specific employee groups. Employees authorized payroll withholdings to pay contributions for dependents or increased coverage. Claims were paid by a third-party administrator acting on behalf of the District. The plans are authorized by Chapter 509A of the Code of Iowa.

The administrative contract between the District and the third party administrator is renewable annually and administrative fees and stop loss premiums are included in the contractual provisions. In accordance with state statute, the District was protected against unanticipated catastrophic individual or aggregate loss by stop loss coverage from a private insurance company. Stop loss coverage was in effect for individual claims that exceeded $100,000 and for aggregate loss of $7,163,675 for the plan year.

All claim handling procedures are performed by an independent claims administrator. Liabilities are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Recognized liabilities include a provision for all estimated claims incurred but not reported. Changes in the medical claims liability amounts for the years ended June 30, 2004 and 2003 were as follows:

Self-Insurance Liability	Beginning	Claims and Changes in Estimates	Claims Payments	Ending
Health:				
2004	$ 2,029,381	$ 4,626,631	$ 4,337,533	$ 2,318,479
2003	1,831,293	5,494,551	5,296,463	2,029,381

Note 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of media, educational services and special education services provided through the Area Education Agency. The District's actual amount for this purpose totaled $3,035,870 for the year ended June 30, 2004. The District's actual constructive revenue and constructive expenses are included in the General Fund.

Note 10. Construction Commitments

As of June 30, 2004, the District had outstanding construction commitments totaling approximately $25,393,000.

Note 11. Nonvested Employee Benefits

District employees accumulate sick leave hours for subsequent use. Sick leave is payable only when used and can be carried over in limited amounts for use in future years. The contingent liability for this sick leave is approximately $12,678,000 as of June 30, 2004. This liability does not vest and is not included as a liability in the balance sheets. This contingent liability has been computed based on rates of pay as of June 30, 2004.

Note 12. Lease Commitments

The District leases a building in Iowa City, Iowa, four special education classrooms, a temporary classroom, a daycare building and land under various leases as of June 30, 2004. Rental expense during the year ended June 30, 2004 was $97,727.

Lease commitments as of June 30, 2004 for these leases is as follows:

Year ending June 30:	
2005	$ 72,318
2006	50,760
2007	12,300

Note 13. Contingencies

As of June 30, 2004, the District is involved in various claims and lawsuits against the District that arise in the normal course of operations, which are covered by insurance. The outcome and eventual liability of the District, if any, from these claims and any unasserted claims is not known at this time; however, management does not believe they will be material to the basic financial statements.

Note 14. Jointly Governed Organization

The District is a member of a cooperative agreement with the City of Coralville, Iowa organized under 28E of the Code of Iowa to provide for the operation of a joint swimming pool facility. The mayor of the City of Coralville, Iowa is designated as the administrator of the agreement. Under the agreement, the District is responsible for 30% of the City's costs and expenses in operating and maintaining the facility payable monthly throughout the year. For the fiscal year 2004, monthly payments were approximately $6,000 per month.

Note 15. New Governmental Accounting Standards Board (GASB) Statements

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.

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

Statement No. 40, *Deposits and Investment Risk Disclosures*, issued March 2003, 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 related to 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 values that are highly sensitive to changes in interest rates. This Statement also establishes and modifies disclosure requirements for deposit risks.

Note 15. New Governmental Accounting Standards Board (GASB) Statements (Continued)

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. The 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.

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 supercedes existing guidance. The provisions of this Statement will be effective for the District beginning with its year ending June 30, 2008.

Statement No. 44, *Economic Condition Reporting: The Statistical Section*, issued May 2004, will be effective for the District beginning with its year ending June 30, 2006. This Statement improves the understandability and usefulness of statistical section information by addressing the comparability problems that have developed in practice and by adding information from the new financial reporting model required by Statement No. 34 and related statements.

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, 2009. This Statement establishes standards for the measurement, recognition and display of other postemployment benefits expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports.

The District's management has not yet determined the effect these Statements will have on the District's financial statements.

Iowa City Community School District

Required Supplementary Information
Budgetary Comparison Schedule
All Governmental Funds and Enterprise Fund
Year Ended June 30, 2004

	Governmental Fund Types Actual	Enterprise Fund Type Actual	Total Actual	Budgeted Amounts Original	Budgeted Amounts Final	Final to Actual Variance-Positive (Negative)
Revenues:						
Local sources	$ 48,736,543	$ 1,831,647	$ 50,568,190	$ 45,262,379	$ 45,262,379	$ 5,305,811
State sources	38,088,997	35,844	38,124,841	39,566,344	39,566,344	(1,441,503)
Federal sources	2,211,501	1,145,338	3,356,839	2,781,134	2,781,134	575,705
Total revenues	89,037,041	3,012,829	92,049,870	87,609,857	87,609,857	4,440,013
Expenditures:						
Instruction	54,905,152	-	54,905,152	54,702,392	55,240,514	335,362
Support services	26,575,799	-	26,575,799	24,925,194	26,116,914	(458,885)
Noninstructional programs	271,862	2,776,666	3,048,528	2,992,021	3,002,772	(45,756)
Other expenditures	14,085,813	-	14,085,813	11,873,996	49,041,569	34,955,756
Total expenditures	95,838,626	2,776,666	98,615,292	94,493,603	133,401,769	34,786,477
Excess (deficiency) of revenues over expenditures	(6,801,585)	236,163	(6,565,422)	(6,883,746)	(45,791,912)	39,226,490
Other financing sources, net	29,327,676	-	29,327,676	10,014,000	39,014,000	(9,686,324)
Net change in fund balance, net assets	22,526,091	236,163	22,762,254	$ 3,130,254	$ (6,777,912)	$ 29,540,166
Fund balances, beginning of year	28,026,586	1,276,163	29,302,749			
Fund balances, end of year	$ 50,552,677	$ 1,512,326	$ 52,065,003			

See Note to Required Supplementary Information.

Note to Required Supplementary Information – Budgetary Reporting

The Board of Education annually adopts and certifies a budget for all funds except for internal service funds, agency funds and private-purpose trust funds on the accrual basis following required public notice and hearing in accordance with the Code of Iowa. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund. 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 (spending authority).

During the year ended June 30, 2004, the District adopted one budget amendment which increased the budgeted expenditures by $38,908,166.

During the year ended June 30, 2004, the District's expenditures in the support services and noninstructional functional areas exceeded the amount budgeted.

During the year ended June 30, 2004, the District's General Fund expenditures did not exceed the authorized spending authority amount.

Iowa City Community School District

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004

	Special Revenue			Total Nonmajor
	Management	Student Activity	Debt Service	Governmental Funds
Assets				
Cash and cash equivalents	$ 2,748,673	$ 955,646	$ 444,637	$ 4,148,956
Receivables:				
Property tax:				
Current year	19,005	-	5,434	24,439
Succeeding year	1,382,000	-	3,595,790	4,977,790
Other	-	485	-	485
Total assets	$ 4,149,678	$ 956,131	$ 4,045,861	$ 9,151,670
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	$ 3,069	$ 20,689	$ -	$ 23,758
Due to other funds	-	444	-	444
Deferred revenue, succeeding year property tax	1,382,000	-	3,595,790	4,977,790
Total liabilities	1,385,069	21,133	3,595,790	5,001,992
Fund balance:				
Reserved for debt service	-	-	450,071	450,071
Unreserved, undesignated, reported in special revenue funds	2,764,609	934,998	-	3,699,607
Total fund balances	2,764,609	934,998	450,071	4,149,678
Total liabilities and fund balances	$ 4,149,678	$ 956,131	$ 4,045,861	$ 9,151,670

Iowa City Community School District

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

	Special Revenue		Debt Service	Total Nonmajor Governmental Funds
	Management	Student Activity		
Revenues:				
Local sources:				
Local tax	$ 3,279,450	$ -	$ 913,381	$ 4,192,831
Other	16,367	2,051,663	35,913	2,103,943
State sources	1,252	-	324	1,576
Total revenues	3,297,069	2,051,663	949,618	6,298,350
Expenditures:				
Current:				
Instruction, other instruction	-	2,206,090	-	2,206,090
Support services, administrative services	1,471,973	110,680	-	1,582,653
Other expenditures:				
Debt service:				
Principal	-	-	705,000	705,000
Interest and fiscal charges	-	-	404,944	404,944
Total expenditures	1,471,973	2,316,770	1,109,944	4,898,687
Excess (deficiency) of revenues over expenditures	1,825,096	(265,107)	(160,326)	1,399,663
Other financing sources, transfers in	-	215,260	240,000	455,260
Net change in fund balances	1,825,096	(49,847)	79,674	1,854,923
Fund balances, beginning of year	939,513	984,845	370,397	2,294,755
Fund balances, end of year	$ 2,764,609	$ 934,998	$ 450,071	$ 4,149,678

Iowa City Community School District

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Special Revenue Fund, Student Activity, by Account
Year Ended June 30, 2004

	City High School	West High School	Northwest Junior High and Elementary Schools	South East Junior High and Elementary Schools
Revenues:				
Local sources:				
Other:				
Interest income	$ 3,630	$ 3,044	$ 1,288	$ 649
Student activity fees, sales and miscellaneous	854,802	603,364	223,586	153,270
Total revenues	858,432	606,408	224,874	153,919
Expenditures:				
Current:				
Instruction, other instruction	807,855	665,750	200,197	157,242
Support services, administrative services	69,992	23,272	9,380	6,636
Total expenditures	877,847	689,022	209,577	163,878
Excess (deficiency) of revenues over expenditures	(19,415)	(82,614)	15,297	(9,959)
Other financing sources, transfers in	16,000	16,000	-	-
Net change in fund balances	(3,415)	(66,614)	15,297	(9,959)
Fund balances, beginning of year	473,537	353,111	49,100	56,016
Fund balances, end of year	$ 470,122	$ 286,497	$ 64,397	$ 46,057

Athletic Fund	District-Wide Activities Account	Vocational Auto Mechanics	Total Student Activity Funds
$ 165	$ 105	$ 33	$ 8,914
189,523	9,837	8,367	2,042,749
189,688	9,942	8,400	2,051,663
363,589	5,082	6,375	2,206,090
-	1,400	-	110,680
363,589	6,482	6,375	2,316,770
(173,901)	3,460	2,025	(265,107)
183,260	-	-	215,260
9,359	3,460	2,025	(49,847)
14,392	17,733	20,956	984,845
$ 23,751	$ 21,193	$ 22,981	$ 934,998

Iowa City Community School District

Statement of Changes in Fiduciary Assets and Liabilities - Agency Funds
Year Ended June 30, 2004

	Balance June 30, 2003	Additions	Deductions	**Balance June 30, 2004**
Flexible Benefits Account				
Assets				
Cash and cash equivalents	$ 68,980	$ 753,630	$ 800,138	**$ 22,472**
Liabilities				
Due to private individuals	$ 68,980	$ 753,630	$ 800,138	**$ 22,472**
School Children's Aid				
Assets				
Cash and cash equivalents	$ 9,207	$ 22,245	$ 18,613	**$ 12,839**
Liabilities				
Due to private individuals	$ 9,207	$ 22,245	$ 18,613	**$ 12,839**
Total Agency Funds				
Assets				
Cash and cash equivalents	$ 78,187	$ 775,875	$ 818,751	**$ 35,311**
Liabilities				
Due to private individuals	$ 78,187	$ 775,875	$ 818,751	**$ 35,311**

Iowa City Community School District

Schedule of Revenues by Source and Expenditures by Function
All Governmental Fund Types

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	**$ 42,385,863**	$ 39,060,701	$ 36,739,202	$ 35,253,249
Tuition	**1,675,367**	1,789,749	1,659,095	1,598,711
Other	**4,675,313**	4,393,476	4,592,399	4,842,708
State sources	**38,088,997**	38,424,534	36,682,827	36,153,467
Federal sources	**2,211,501**	2,122,528	1,731,845	1,584,582
Total revenues	**$ 89,037,041**	$ 85,790,988	$ 81,405,368	$ 79,432,717
Expenditures:				
Instruction:				
Regular instruction	**$ 34,938,857**	$ 34,008,504	$ 33,138,885	$ 30,679,725
Special instruction	**16,916,123**	14,072,519	12,919,014	11,645,169
Other instruction	**3,050,172**	2,966,021	2,908,550	2,696,106
Support services:				
Student services	**2,555,746**	2,288,553	2,137,569	2,057,208
Instructional staff services	**5,473,625**	4,730,821	4,984,073	4,507,212
Administration services	**8,339,612**	8,757,421	7,423,849	7,716,744
Operation and maintenance of plant services	**7,412,390**	6,983,505	6,774,076	6,992,160
Transportation services	**2,794,426**	2,541,268	2,345,281	2,242,908
Noninstructional programs	**271,862**	255,004	231,893	257,207
Other expenditures:				
Facilities acquisition	**9,939,999**	4,567,357	2,902,281	2,736,671
Long-term debt:				
Principal	**705,000**	1,865,000	1,650,000	1,575,000
Interest and other charges	**404,944**	80,988	157,437	230,601
AEA flowthrough	**3,035,870**	3,187,081	3,099,086	3,104,764
Total expenditures	**$ 95,838,626**	$ 86,304,042	$ 80,671,994	$ 76,441,475

Iowa City 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 Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture:			
Passed through the State Department of Agriculture and State Department of Education:			
USDA Commodities	10.550	77-1737	$ 195,449
National School Lunch Program	10.555	77-1737	845,678
National School Breakfast Program	10.553	77-1737	123,751
Total nutrition cluster			969,429
Total US Department of Agriculture			1,164,878
U.S. Army Corps of Engineers:			
Passed through Johnson County, Iowa:			
Flood Control Projects	12.106	N/A	5,435
Department of Housing and Urban Development:			
Passed through City of Iowa City:			
Community Development Block Grant	14.218	N/A	4,390
U.S. Department of Justice:			
Passed through Johnson County:			
Public Safety Partnership and Community Policing	16.710	N/A	1,049
U.S. Department of Health and Human Services			
Passed through State of Iowa Department of Health and Human Services:			
Child Care and Development Block Grant	93.575	N/A	48,000
U.S. Department of Education:			
Passed through State of Iowa Department of Education:			
Title I - Grants to Local Educational Agencies	84.010A	N/A	941,302
Title I School Improvement	84.010A	N/A	20,000
Title II - Improving Teacher Quality State Grant	84.367	N/A	373,626
Title V, Part A - Innovative Education Program Strategies	84.298A	N/A	25,776
Grants for State Assessments and Related Activities	84.369	N/A	63,906
Safe and Drug-Free Schools and Communities - State Grants	84.186A	77-6957	51,705
Vocational Education Basic Grants to States	84.048A	77-6957	127,182
Twenty-First Century Learning Centers	84.287A	N/A	314,220
Education for Homeless Children & Youth	84.196	N/A	23,000
Special Education State Program Improvement Grants for Children with Disabilities	84.323	N/A	22,529
			1,963,246

(Continued)

Iowa City 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 Entity Identifying Number	Federal Expenditures
U.S. Department of Education:			
Passed through Grant Wood Area Education Agency:			
Title I Accountability Grant	84.348	N/A	5,399
Special Education Grants to States	84.027	N/A	411,995
Education Technology Grants	84.318	N/A	60,872
			478,266
Direct Program: Impact Aid	84.041	N/A	26,797
Total U.S. Department of Education			2,468,309
Corporation for National Community Service:			
Passed through State Department:			
Learn and Serve America-School and Community	94.004	N/A	4,213
Total expenditures of federal awards			$ 3,696,274

See Notes to Schedule of Expenditures of Federal Awards.

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 Iowa City 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 governmental 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.

Iowa City Community School District

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

	Finding	Status	Corrective Action Plan or Other Explanation
Findings Related to Required Statutory Reporting:			
03-IV-B	District expenditures exceeded the amended certified budget in support service function.	Not corrected.	See corrective action plan at 04-IV-B.
03-IV-G	Written minutes of February 25, 2003 Board meeting did not include Board approval of significant capital projects.	Corrected.	
03-IV-I	One certificate of deposit did not meet minimum required rate.	Corrected.	
03-IV-J	The District made adjustments to the trial balance subsequent to submission of the CAR.	Not corrected.	See corrective action plan at 04-IV-J.
03-IV-K	The District had deficit fund balances.	Corrected.	

McGladrey & Pullen
Certified Public Accountants

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

To the Board of Education
Iowa City Community School District
Iowa City, Iowa

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Iowa City Community School District as of and for the year ended June 30, 2004, which collectively comprise Iowa City Community School District's basic financial statements and have issued our report thereon dated September 22, 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 Iowa City 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 through 04-II-E.

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 misstatements caused by error or fraud 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 is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the Iowa City School District in a separate letter dated September 22, 2004.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Iowa City 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 or other matters that are required to be reported under *Government Auditing Standards.*

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 are not intended to constitute legal interpretation of those statutes.

This report is intended solely for the information of the Board of Education, 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
September 22, 2004

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
Iowa City Community School District
Iowa City, Iowa

Compliance

We have audited the compliance of Iowa City 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 its major federal programs for the year ended June 30, 2004. Iowa City 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 Non-Profit 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 Iowa City 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 the District's compliance with those requirements.

In our opinion, Iowa City 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. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 04-III-C.

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Internal Control Over Compliance

The management of Iowa City 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 Iowa City 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 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 and 04-III-B.

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 none of the reportable conditions described above is a material weakness

This report is intended solely for the information of the Board of Education, 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
September 22, 2004

Iowa City 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
84.367	Title II - Improving Teacher Quality
84.027	Special Education Grants to States
84.287A	Twenty-First Century Learning Centers

Dollar threshold used to distinguish between type A and type B programs: $300,000

Auditee qualified as low-risk auditee? ☑ Yes ☐ No

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

Instances of Noncompliance: There were no instances of noncompliance which were required to be reported in accordance with *Government Auditing Standards*.

Reportable Conditions

04-II-A

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

Condition: Individuals have the capability to change the employee master file, enter time, generate payroll checks, and access to the password required for the signature to be imprinted on the check.

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

Recommendation: We recommend that the human resources director reviews an edit report to ensure employee names and amounts are proper. The ability to change the master file should be restricted from those with access to enter payroll information into the system. Changes to the master file should be compared to the Board approved hires by an individual separate from the payroll function.

Response and Corrective Action Plan: The District recognizes the importance of good internal controls and adequate segregation of duties. The District also recognizes the potential risks when an inadequate segregation of duties exists due primarily to the limited number of office personnel. The District will review its current responsibilities and reassign duties as considered feasible to mitigate the lack of segregation of duties.

04-II-B

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

Condition: One position performs the following functions related to cash disbursements: posts to the general ledger, generates accounts payable checks, has access to the password for electronic signature and performs the bank reconciliations

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

Recommendation: We recommend the District reassign responsibilities so that no more than two of the following functions are performed by the same individual: posting to the general ledger, check signing access and performing the bank reconciliation. In addition, individuals with access to the bank information should not have access to the password for the check signatures or the signature plates. The bank statement and returned checks should be reviewed for valid vendors and proper endorsement by an individual other than the person responsible for cash disbursements.

Response and Corrective Action Plan: The District recognizes the importance of good internal controls and adequate segregation of duties. The District also recognizes the potential risks when an inadequate segregation of duties exists due primarily to the limited number of office personnel. The District will review its current responsibilities and reassign duties as considered feasible to mitigate the lack of segregation of duties.

04-II-C

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

Condition: One individual has access to cash receipts until the deposit is made, posts to the general ledger and performs the bank reconciliations.

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

Recommendation: We recommend that the receptionist receives all cash receipts and maintains a log daily. The receipts should be stamped at the time of receipt with a restrictive endorsement. As currently the process, an individual other than the one with access to post to the general ledger and performing the bank reconciliation responsibilities should make the weekly deposit. The log prepared at the time of the receipt and the deposit slip should be compared by the individual responsible for the bank reconciliation.

Response and Corrective Action Plan: The District recognizes the importance of good internal controls and adequate segregation of duties. The District also recognizes the potential risks when an inadequate segregation of duties exists due primarily to the limited number of office personnel. The District will review its current responsibilities and reassign duties as considered feasible to mitigate the lack of segregation of duties.

04-II-D

Finding: The District does not currently have a written formal policy for approving new vendors.

Condition: Two positions have the ability to create a new vendor and the same positions are also able to disburse cash.

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

Recommendation: We recommend the District adopt a written policy for approving new vendors and limit access to create vendors to an individual separate from the cash disbursement function.

Response and Corrective Action Plan: The District will review its policy for the approval of new vendors and review the process for the creation of new vendors within the current system. However, the District recognizes that many of the new vendors are the result of reimbursement to new employees, contractors related to capital projects previously approved by the Board of Directors and other contractual relationships.

04-II-E

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

Condition: The financial secretaries at the schools are responsible for the deposits, control of check stock, check writing, have check signature authority and perform the bank reconciliation.

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

Recommendation: We recommend the District centralize the preparation of the bank reconciliation and remove check signing authority from the financial secretaries and limit check signing authority to the building principal.

Response and Corrective Action Plan: The District recognizes the importance of good internal controls and adequate segregation of duties. The District also recognizes the potential risks when an inadequate segregation of duties exists due primarily to the limited number of office personnel.

The District has requested new signature cards from the banks on all known District accounts and will limit the signing to board officials and building principals. The District will review the policies related to the bank reconciliation process for these accounts.

III. Findings and Questioned Costs for Federal Awards

Reportable Conditions in Administering Federal Awards

04-III-A

Title II – Improving Teacher Quality Grant (CFDA 84.367)
Special Education Grants to States (CFDA 84.027)
Twenty-First Century Learning Centers (CFDA 84.287A)

Finding: The District does not have a system in place as required by Office of Management Budget Circular A-87 to support the allocation of split funded employee payroll costs related to Title II, Special Education Grants to States (Part B – Special Education Supplemental Funds), and Twenty-First Century Learning Centers.

Condition: The employees are not required to complete time studies to support payroll percentages charged to the program. Quarterly comparisons of actual percentages as accumulated by time records were not compared to the budgeted distributions to substantiate the percentage charged to the grant.

Criteria: The Office of Management and Budget Circular A-87 (OMB A-87) requires a distribution of salaries be supported be personnel activity reports or equivalent documentation for all employees who work for more than one cost objective. Also, the circular requires at least quarterly comparisons of actual cost to budgeted distributions be made reflect adjustments as a result of actual activity performed.

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 time study 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 monthly time studies should be done on at least a quarterly basis to substantiate the percentages charged to the grants.

Response and Corrective Action Plan: The District will implement the use of time studies for all employees whose payroll costs are partially funded by federal programs. The first time studies will be available in December 2004 and will be reviewed and compared to the budgeted allocations to determine whether any adjustments to the payroll costs are necessary.

04-III-B

Twenty-First Century Learning Centers (CFDA 84.287A)

Finding: The District does not obtain semi-annual certification for employees fully funded by a federal program as required by OMB A-87.

Condition: The District does not have a system in place that requires employees to properly sign semi-annual certification letters stating that their duties were exclusively related to Twenty-First Century Learning Centers.

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

Recommendation: We recommend that the District implement a system to obtain semi-annual certifications for personnel funded 100% by a federal award.

Response and Corrective Action Plan: The District will obtain certifications on a semi-annual basis for personnel funded 100% by federal awards.

Instances of Noncompliance

04-III-C

Title II – Improving Teacher Quality (CFDA 84.367)

Finding: The District did not provide Title II funds to eligible nonpublic schools.

Condition: Title II nonpublic allocation of $3,807 was made available to Regina Elementary School; however, the amount was not requisitioned by the nonpublic school.

Questioned Costs: None

Criteria: A local education agency participating in the Title II program receiving financial assistance must provide eligible private school children and their teachers or other educational personnel with equitable services or other benefits under these programs.

Recommendation: We recommend the District contact the Area Education Agency when the District is unable to coordinate the spending of the funds with the nonpublic school.

Response and Corrective Action Plan: The District will continue to review and monitor the expenditures for federal programs where equitable services and benefits are due to eligible private school children. The District will coordinate with the Area Education Agency for the spending of these funds.

IV. Other Findings Related to Required Statutory Reporting

04-IV-A – Official Depositories

Official depositories have been approved by the District.

Finding: The District exceeded the maximum deposit amounts stated in the Board resolution in March and April 2004 due to bond proceeds and a significant property tax payment.

Recommendation: The maximum deposit amounts should be reviewed and increased appropriately.

Response and Corrective Action Plan: The District will review its maximum deposit amounts on a more periodic basis and adjust as necessary.

Conclusion: Response and corrective action plan accepted.

04-IV-B – Certified Budget and General Fund Spending Authority

Finding: Disbursements for the year ended June 30, 2004 exceeded the amounts budgeted in the final amended certified budget in the support service and noninstructional programs functional area.

Recommendation: The certified budget should be amended in accordance with Chapter 24.9 of the Code of Iowa.

Response and Corrective Action: The District monitors their budget on a regular basis and makes the necessary amendments in May in accordance with Chapter 24.9 of the Code of Iowa. Those amounts that exceeded the budget amounts for the year ended June 30, 2004 were due to the accrual of certain expenditures subsequent to the budget amendment deadline.

Conclusion: Response and corrective action plan accepted.

04-IV-C – Questionable Disbursements

We noted no disbursements which did not appear to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

04-IV-D – Travel Expenses

No disbursements 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 with District Officials and Employees

No business transactions between the District and District officials and/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 the coverage is adequate for current operations.

04-IV-G – Board Minutes

No transactions requiring Board approval which had not been approved in the Board minutes were noted other than the following:

Finding 1: Summer school salaries and benefits accrued as of June 30, 2004 were not approved by the Board prior to disbursement on July 31, 2004.

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

Response and Corrective Action Plan: The salary and benefits disbursement was omitted from approval by the Board of Directors in error. The District will have these disbursements approved at a November meeting.

Conclusion: Response and corrective action plan accepted.

Finding 2: The District does not receive Certification of Publication related to notice of Board meetings unless requested.

Recommendation: The District should obtain appropriate documentation.

Response and Corrective Action Plan: The District will review the required publication and implement procedures to comply with requirement.

Conclusion: Response and corrective action plan accepted.

04-IV-H – Certified Enrollment

No material variances in the basic enrollment data certified to the Department of Education were noted other than the following:

Finding: The District does not keep adequate documentation supporting the number of open enrollment and total residential students. The open enrollment counts for Cedar Rapids and Mid Prairie School Districts did not agree to supporting documentation and Certified Enrollment Form 1 numbers varied from supporting documentation by one student.

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

Response and Corrective Action Plan: The District will review its current documentation related to enrollment information and make the necessary adjustments to update and maintain the proper documentation for the number of students reported in the certified enrollment.

Conclusion: Response and corrective action plan accepted.

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 (CAR) was filed with the Department of Education timely.

Finding: The District made adjustments to the trial balances as follows:

- To recognize unearned revenue in the General Fund for Title II in the amount of $146,829. This represents cash received but not expended.

- To adjust for the benefit payable liability at year-end in the Internal Service Fund for the $215,520.

Recommendation: We recommend the District contact the Iowa Department of Education for disposition of these adjustments.

Response and Corrective Action Plan: The District has contacted the Iowa Department of Education concerning adjustments to the CAR. The Department of Education has indicated that amendments will not be allowed and these adjustments must be shown as changes to the beginning fund balance on the CAR for the year ending June 30, 2005.

Conclusion: Response and corrective action plan accepted.

Iowa City 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 has improper segregation of duties over the payroll process.	See corrective action plan at 04-II-A.	June 30, 2005	Paul Bobek
04-II-B	The District has improper segregation of duties over the cash disbursement function.	See corrective action plan at 04-II-B.	June 30, 2005	Paul Bobek
04-II-C	The District has improper segregation of duties over the cash receipts function.	See corrective action plan at 04-II-C.	June 30, 2005	Paul Bobek
04-II-D	The District does not have a formal policy for approving new vendors.	See corrective action plan at 04-II-D.	June 30, 2005	Paul Bobek
04-II-E	The District has improper segregation of duties over student activity funds.	See corrective action plan at 04-II-E.	June 30, 2005	Paul Bobek
Reportable Conditions in Administering Federal Awards				
04-III-A	The District does not have a system in place to support the allocation of split funded employees.	See corrective action plan at 04-III-A.	June 30, 2005	Paul Bobek
04-III-B	The District does not have a system in place to ensure employees fully funded by federal programs sign a semiannual certification.	See corrective action plan at 04-III-B.	June 30, 2005	Paul Bobek
Instances of Noncompliance				
04-III-C	The District did not provide Title II funds to eligible nonpublic schools.	See corrective action plan at 04-III-C.	June 30, 2005	Paul Bobek

(Continued)

Current Number	Comment	Corrective Action Plan	Anticipated Date of Completion	Contact Person
Other Findings Related to Required Statutory Reporting:				
04-IV-A	The District exceeded the maximum deposit amounts stated in the Board resolution.	See corrective action plan at 04-IV-A.	June 30, 2005	Paul Bobek
04-IV-B	Disbursements exceeded the amended certified budget amounts in the support service and noninstructional programs.	See corrective action plan at 04-IV-B.	June 30, 2005	Paul Bobek
04-IV-G	Finding 1: The salaries and benefits payable were not properly documented in the Board minutes.	See corrective action plan at 04-IV-G.	June 30, 2005	Paul Bobek
04-IV-G	Finding 2: The District does not receive Certification of Publication related to notice of Board meetings and does not keep detail minutes of closed sessions.	See corrective action plan at 04-IV-G.	June 30, 2005	Paul Bobek
04-IV-H	The District does not keep adequate documentation supporting the number of open enrollment and total residential students.	See corrective action plan at 04-IV-H.	June 30, 2005	Paul Bobek
04-IV-J	The District made adjustments to the trial balances subsequent to submission of the CAR.	See corrective action plan at 04-IV-J.	June 30, 2005	Paul Bobek

McGladrey & Pullen
Certified Public Accountants

To the Board of Directors
Iowa City Community School District
Iowa City, Iowa

This letter includes comments and suggestions with respect to matters that came to our attention in connection with our audit of the financial statements of Iowa City Community School District for the year ended June 30, 2004. These items are offered as constructive suggestions to be considered as part of the ongoing process of modifying and improving the District's practices and procedures and are not considered material weaknesses or reportable conditions.

Approval of Purchase Orders

An employee signs the Executive Director of Administrative Service's name on the purchase orders to indicate approval. We recommend the District develop a written policy that documents this authorization.

Authorized Check Signers

The authorized check signers on a bank account did not reflect the current check signers. We recommend the authorized check signers on the bank accounts be updated to reflect current Board and staff members. The District should confirm the changes in authorized check signers with the bank.

Receipts for Cash Transactions

The District does not prepare receipts for all check and cash transactions received in the Children's Aid Fund. We recommend the receptionist prepare prenumbered receipts for these transactions and send donor acknowledgement letters of contribution to the Children's Aid Fund. An independent individual should reconcile the cash given to the prenumbered receipts and acknowledgement letters.

Information Technology

We noted the following regarding information technology:

- The District does not have a written information systems security policy in place. We recommend the District develop and adopt a formal information systems security policy and inform employees of this policy.
- The District does not have a disaster recovery plan and does not maintain off-site backups of the system. We recommend the District develop and test a disaster recovery plan and routinely create an offsite backup.

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an affiliation of separate and independent legal entities.

- The District does not perform internal checks to ensure transaction data has been edited or validated. We recommend the District perform internal checks to ensure all transactions are properly posted and no unauthorized transactions are posted.

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

McGladrey & Pullen, LLP

Davenport, Iowa
September 22, 2004