

**Iowa City Community School District
Iowa City, Iowa**

Comprehensive Annual Financial Report

Year Ended June 30, 2005

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Iowa City Community School District

**Board of Education and School District Officials
Year Ended June 30, 2005**

Name	Title	Term Expires
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Board of Education

Before September 2004 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

After September 2004 election:

Lauren Reece	President	2005
Don Jackson	Vice President	2005
Toni Cilek	Board Member	2005
Jan Leff	Board Member	2006
Peter Wallace	Board Member	2006
Gayle Klouda	Board Member	2007
Aletia Morgan	Board Member	2007

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, 2005, 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. 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, 2005, 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 15, 2005 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.

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 the 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 15, 2005

Iowa City Community School District

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2005

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, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follows:

Financial Highlights

Total net assets increased \$5,225,592 from \$66,502,577 in 2004 to \$71,728,169 in 2005. Total revenues for the fiscal year 2005 increased \$6,756,558 from 2004. Total expenses also increased from \$90,922,304 in 2004 to \$93,993,427 in 2005.

General Fund revenues increased from \$79,206,742 in fiscal 2004 to \$83,604,631 in fiscal year 2005, while General Fund expenditures increased from \$80,999,940 in fiscal 2004 to \$82,863,472 in fiscal 2005. This resulted in an increase in the District's General Fund balance from \$11,864,723 in fiscal 2004 to \$12,390,078 in fiscal 2005.

The increase in General Fund revenues for fiscal year 2005 was attributable to an increase in property tax and state aid as provided in the state funding formula. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.

As a result of the improved economy and rising interest rates, the District was able to generate an increase in investment earnings from \$116,898 in fiscal year 2004 to \$283,863 in fiscal year 2005.

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 provide 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 include 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.

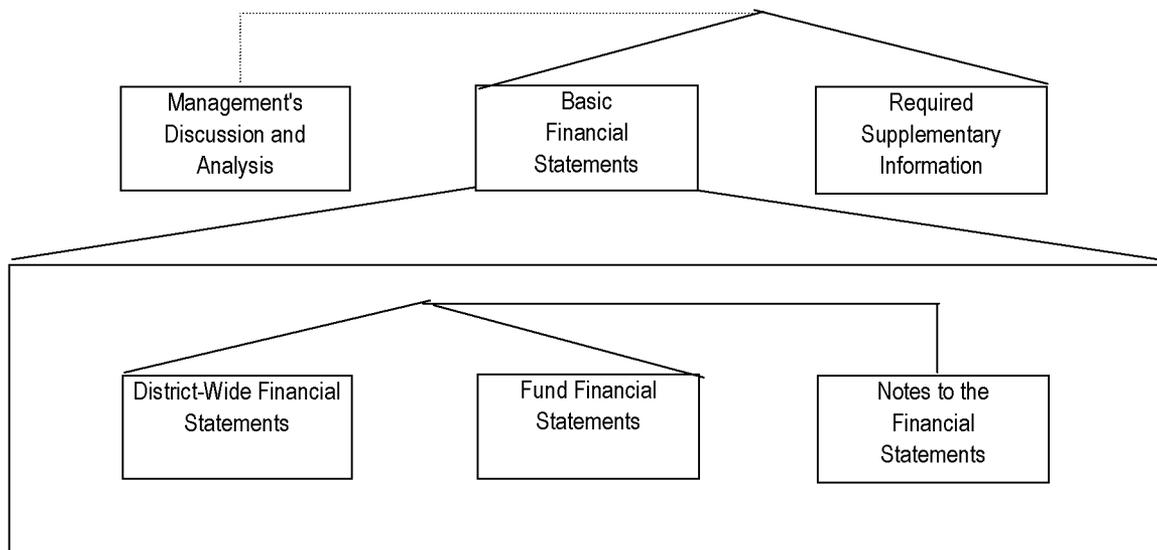
In summary, Iowa City Community School District's overall financial position remains strong, stable and consistent.

Iowa City Community School District

Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005

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



Iowa City Community School District

Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005

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 the 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

Iowa City Community School District

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2005

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 nonfinancial 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.

Iowa City Community School District

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2005

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

Iowa City Community School District

Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005

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, 2005 compared to 2004:

Figure A-3

Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change 2004-2005
	2005	2004	2005	2004	2005	2004	
Current and other assets	\$ 86,795,152	\$ 101,972,426	\$ 1,677,886	\$ 1,514,417	\$ 88,473,038	\$ 103,486,843	\$ (15,013,805)
Capital assets	78,008,288	53,130,930	285,874	186,141	78,294,162	53,317,071	24,977,091
Total assets	164,803,440	155,103,356	1,963,760	1,700,558	166,767,200	156,803,914	9,963,286
Long-term obligations	34,378,419	37,166,825	-	-	34,378,419	37,166,825	2,788,406
Other liabilities	60,542,337	53,008,942	118,275	125,570	60,660,612	53,134,512	(7,526,100)
Total liabilities	94,920,756	90,175,767	118,275	125,570	95,039,031	90,301,337	(4,737,694)
Net assets:							
Invested in capital assets, net of related debt	47,646,574	46,666,309	285,874	186,141	47,932,448	46,852,450	1,079,998
Restricted	564,545	186,789	-	-	564,545	186,789	377,756
Unrestricted	21,671,565	18,074,491	1,559,611	1,388,847	23,231,176	19,463,338	3,767,838
Total net assets	\$ 69,882,684	\$ 64,927,589	\$ 1,845,485	\$ 1,574,988	\$ 71,728,169	\$ 66,502,577	\$ 5,225,592

The District's total net assets were greater as of June 30, 2005 than June 30, 2004. The increase occurred primarily in the governmental funds as a result of revenues in excess of expenses and the reduction in long-term obligations. The District expended over \$27,500,000 in capital assets during the fiscal year ending June 30, 2005 and has unexpended proceeds of \$6,381,705 as of June 30, 2005. The expenditures made during fiscal 2005 included the construction of a new elementary school, a new alternative high school and renovations to five elementary buildings and the two existing high schools. In addition, construction for a new junior high school began and is expected to be completed for classes in the fall of 2006.

Iowa City Community School District

Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005

Changes in net assets – Figure A-4 shows the changes in net assets for the year ended June 30, 2005 and 2004:

Figure A-4

Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total School District	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for service and sales	\$ 3,001,126	\$ 2,813,373	\$ 1,956,544	\$ 1,820,661	\$ 4,957,670	\$ 4,634,034
Operating grants and contributions	8,613,823	7,822,835	1,231,176	1,181,182	9,844,999	9,004,017
Capital grants and contributions	1,536,790	268,404	-	-	1,536,790	268,404
General revenues:						
Property taxes	44,369,440	42,385,863	-	-	44,369,440	42,385,863
Unrestricted state grants	35,092,649	32,984,278	-	-	35,092,649	32,984,278
Unrestricted investment earnings	380,544	157,253	24,274	10,986	404,818	168,239
Other	3,012,653	3,017,626	-	-	3,012,653	3,017,626
Total revenues	96,007,025	89,449,632	3,211,994	3,012,829	99,219,019	92,462,461
Program expenses:						
Governmental activities:						
Instruction	58,885,279	57,327,726	-	-	58,885,279	57,327,726
Support services	26,489,014	26,756,647	-	-	26,489,014	26,756,647
Noninstructional programs	268,069	266,996	-	-	268,069	266,996
Other expenses	5,409,568	3,856,931	-	-	5,409,568	3,856,931
Business-type activities,						
nutritional services	-	-	2,941,497	2,714,004	2,941,497	2,714,004
Total expenses	91,051,930	88,208,300	2,941,497	2,714,004	93,993,427	90,922,304
Change in net assets	\$ 4,955,095	\$ 1,241,332	\$ 270,497	\$ 298,825	\$ 5,225,592	\$ 1,540,157

Property tax and unrestricted state grants account for 80 and 82 percent of the total revenue for the years ended June 30, 2005 and 2004, respectively. The District's expenses primarily relate to instruction and support services which account for 91 and 92 percent of the total expenses for the years ended June 30, 2005 and 2004, respectively.

Governmental Activities

Revenues for governmental activities were \$96,007,025 and expenses were \$91,051,930. A significant portion of this difference of \$4,955,095 was used for the repayment of the general obligations bonds as scheduled in Note 6 to the Basic Financial Statements.

Iowa City Community School District

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2005

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**

	2005		2004	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$ 58,885,279	\$ (51,218,019)	\$ 57,327,726	\$ (50,481,781)
Support services	26,489,014	(25,837,814)	26,756,647	(26,155,102)
Noninstructional programs	268,069	(110,662)	266,996	(114,148)
Other expenses	5,409,568	(733,696)	3,856,931	(1,552,657)
Totals	\$ 91,051,930	\$ (77,900,191)	\$ 88,208,300	\$ (78,303,688)

- The cost financed by users of the District's programs was \$3,001,126 for 2005 and \$2,813,373 for 2004.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$10,150,613 for 2005 and \$8,091,239 for 2004.
- 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 \$3,211,994 and expenses were \$2,941,497. 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.

Iowa City Community School District

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2005

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 \$26,751,668 which was below last year's ending fund balances of \$50,552,677. However, the primary reason for the decrease in combined fund balances in fiscal 2005 is due to approximately \$26 million of general obligation bond proceeds received in fiscal 2004 being spent on capital projects 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 increased balance is attributable to property tax and state foundation aid increases matching the negotiated salary settlements.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from a balance of \$1,641,375 in fiscal 2004 to \$2,081,408 in fiscal 2005. This increase is primarily due to several large projects for which the District has committed funds but construction will be completed in fiscal 2006.
- As previously noted, the Capital Projects Fund balance decreased due to the expenditure of \$26,187,356 in capital outlay. Fiscal 2005 ended with a balance of \$8,117,685, consisting primarily of bond proceeds which will be expended as the projects are completed.

Proprietary Fund Highlights: The School Nutrition Fund's net assets increased from \$1,512,326 as of June 30, 2004 to \$1,736,789 as of June 30, 2005, representing an increase of approximately 15% for 2005 compared to an increase of 19% for 2004. The District has continued a trend of increased sales of nonproduced foods and a stable work force. The District has also implemented a computerized point of sale system in most of its facilities which has helped to maximize the revenue margins and the related increase in net assets. The increase in retained earnings will be used to replace aging and fully depreciated equipment of the School Nutrition Fund.

The Internal Service Fund, including the District's self-insured health insurance funds, increased net assets from \$1,691,157 in 2004 to \$2,840,982 in 2005. This increase was due to an increase in charges for the cost of health insurance and favorable claims experience for the second consecutive year.

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 \$3,568,647 more than the total budgeted revenues, variance of 3.7 percent from the final budget. Nearly \$2,300,000 of this variance was from federal program revenues that were not anticipated with the original 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.

Iowa City Community School District

Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005

Capital Asset and Debt Administration

Capital Assets: As of June 30, 2005, the District had invested \$78 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 \$25 million from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$2,832,958.

The original costs of the District's capital assets was \$125 million. Governmental funds account for \$126 million with the remainder of \$1 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction-in-progress and building categories. These categories increased primarily from the completion of a major addition to a high school facility and significant expenses on the construction of an alternative high school and elementary building which were nearing completion as of June 30, 2005. These buildings were completed subsequent to June 30, 2005 and opened for classes in August 2005.

**Figure A-6
Capital Assets, Net of Depreciation**

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-2005
Land	\$ 3,001,989	\$ 3,001,989	\$ -	\$ -	\$ 3,001,989	\$ 3,001,989	\$ -
Construction-in-progress	26,671,063	6,418,751	-	-	26,671,063	6,418,751	20,252,312
Buildings	45,684,885	40,373,133	-	-	45,684,885	40,373,133	5,311,752
Improvements other than buildings	1,687,473	1,599,137	-	-	1,687,473	1,599,137	88,336
Furniture and equipment	911,597	1,737,920	285,874	186,141	1,197,471	1,924,061	(726,590)
Total	\$ 77,957,007	\$ 53,130,930	\$ 285,874	\$ 186,141	\$ 78,242,881	\$ 53,317,071	\$ 24,925,810

Long-Term Debt: As of June 30, 2005, the District had \$37 million in general obligation and other long-term debt outstanding. This represents a decrease of approximately \$2.5 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.

**Figure A-7
Outstanding Long-Term Obligations**

	Total School District		Total Change
	2005	2004	2004-2005
General obligation bonds	\$ 36,445,000	\$ 38,495,000	\$ (2,050,000)
Real estate contract payable	-	600,000	(600,000)
Early retirement	549,420	411,783	137,637
Compensated absences	363,955	365,638	(1,683)
Totals	\$ 37,358,375	\$ 39,872,421	\$ (2,514,046)

Iowa City Community School District

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2005

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 state and national economies have stabilized and the state of Iowa has established allowable growth percentages for fiscal year 2006. The District has been able to negotiate a significant portion of its salary settlements that match the rate of growth in state funding for fiscal year 2006. These settlements will help to minimize the use of District reserves to fund operating expenses.
- The Iowa school funding formula is highly dependent upon student enrollment. The District has experienced small enrollment growth over the last couple of years. The enrollment growth of 116 students for fiscal year 2006 will assist the District.
- As previously mentioned, the District is in the process of completing several new buildings and significant additions to other buildings. The anticipated capital expenditures related to these projects are currently higher than originally budgeted. The additional expenditures will be provided for in the Physical Plant and Equipment Levy as allowed by law. In addition, the additional square footage added by these projects will result in additional operating costs to the General Fund.
- In September 2004, the community voted to renew the Physical Plant and Equipment Levy (PPEL) for ten years at a rate not to exceed \$1.34. This renewal and increase of the PPEL rate will increase the property tax revenues by approximately \$2,300,000 for ten fiscal years succeeding fiscal year 2005.
- Due to several natural disasters, the cost of oil products has significantly increased in the last three months. The District anticipates that the additional cost of natural gas and gasoline will be approximately \$800,000 greater for fiscal year 2006 than fiscal year 2005.
- The District has agreed to terms for the purchase of approximately 13 acres of land for \$200,000 for construction of a new elementary school in the western portion of the School District.

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, 2005

Assets	Governmental Activities	Business-Type Activities	Total
Current assets:			
Cash and cash equivalents	\$ 38,708,991	\$ 1,476,212	\$ 40,185,203
Receivables:			
Accounts receivable	149,147	-	149,147
Property tax:			
Current year	213,940	-	213,940
Succeeding year	44,382,337	-	44,382,337
Other	152,325	-	152,325
Due from other governments	2,663,327	-	2,663,327
Internal balances	(117,310)	117,310	-
Inventories	-	48,382	48,382
Prepaid expenses	642,395	35,982	678,377
Total current assets	86,795,152	1,677,886	88,473,038
Noncurrent assets:			
Unamortized bond issuance costs	51,281	-	51,281
Land	3,001,989	-	3,001,989
Construction-in-progress	26,671,063	-	26,671,063
Depreciable capital assets, net of accumulated depreciation	48,283,955	285,874	48,569,829
Total noncurrent assets	78,008,288	285,874	78,294,162
Total assets	164,803,440	1,963,760	166,767,200

See Notes to Basic Financial Statements.

Liabilities	Governmental Activities	Business-Type Activities	Total
Current liabilities:			
Accounts payable	\$ 5,254,488	\$ 6,897	\$ 5,261,385
Salaries and benefits payable	4,482,341	111,378	4,593,719
Claims payable	2,867,686	-	2,867,686
Accrued interest payable	104,467	-	104,467
Unearned revenue, succeeding year property tax	44,382,337	-	44,382,337
Grant revenues, unearned	172,643	-	172,643
General obligation bonds	2,365,000	-	2,365,000
Early retirement	549,420	-	549,420
Compensated absences	363,955	-	363,955
Total current liabilities	60,542,337	118,275	60,660,612
Noncurrent liabilities:			
Unamortized premium on general obligation bonds	298,419	-	298,419
General obligation bonds	34,080,000	-	34,080,000
Total noncurrent liabilities	34,378,419	-	34,378,419
Total liabilities	94,920,756	118,275	95,039,031
Net Assets			
Invested in capital assets, net of related debt	47,646,574	285,874	47,932,448
Restricted for:			
Phase III	93,144	-	93,144
Debt service	471,401	-	471,401
Unrestricted	21,671,565	1,559,611	23,231,176
Total net assets	\$ 69,882,684	\$ 1,845,485	\$ 71,728,169

Iowa City Community School District

Statement of Activities
Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants, and Contributions	Capital Grants, and Contributions
Governmental Activities				
Instruction:				
Regular instruction	\$ 38,179,556	\$ 1,571,302	\$ 2,176,585	\$ -
Special instruction	17,452,494	1,230,452	2,669,643	-
Other instruction	3,253,229	19,278	-	-
	<u>58,885,279</u>	<u>2,821,032</u>	<u>4,846,228</u>	<u>-</u>
Support services:				
Student services	2,710,002	-	408,287	-
Instructional services	4,806,321	-	-	-
Administration services	8,410,711	-	72,861	-
Operation and maintenance	7,891,471	16,974	-	-
Transportation services	2,670,509	6,962	146,116	-
	<u>26,489,014</u>	<u>23,936</u>	<u>627,264</u>	<u>-</u>
Noninstructional programs	268,069	156,158	1,249	-
Other:				
Facilities acquisition	902,669	-	-	1,536,790
Long-term debt interest	1,307,945	-	11,290	-
AEA flowthrough	3,127,792	-	3,127,792	-
Depreciation (unallocated)	71,162	-	-	-
	<u>5,409,568</u>	<u>-</u>	<u>3,139,082</u>	<u>1,536,790</u>
Total governmental activities	91,051,930	3,001,126	8,613,823	1,536,790
Business-Type Activities, nutritional services	2,941,497	1,956,544	1,231,176	-
Total primary government	\$ 93,993,427	\$ 4,957,670	\$ 9,844,999	\$ 1,536,790

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
\$ (34,431,669)	\$ -	\$ (34,431,669)
(13,552,399)	-	(13,552,399)
(3,233,951)	-	(3,233,951)
(51,218,019)	-	(51,218,019)
(2,301,715)	-	(2,301,715)
(4,806,321)	-	(4,806,321)
(8,337,850)	-	(8,337,850)
(7,874,497)	-	(7,874,497)
(2,517,431)	-	(2,517,431)
(25,837,814)	-	(25,837,814)
(110,662)	-	(110,662)
634,121	-	634,121
(1,296,655)	-	(1,296,655)
-	-	-
(71,162)	-	(71,162)
(733,696)	-	(733,696)
(77,900,191)	-	(77,900,191)
-	246,223	246,223
(77,900,191)	246,223	(77,653,968)
37,415,151	-	37,415,151
3,604,392	-	3,604,392
3,349,897	-	3,349,897
35,092,649	-	35,092,649
380,544	24,274	404,818
3,012,653	-	3,012,653
82,855,286	24,274	82,879,560
4,955,095	270,497	5,225,592
64,927,589	1,574,988	66,502,577
\$ 69,882,684	\$ 1,845,485	\$ 71,728,169

Iowa City Community School District

Balance Sheet - Governmental Funds
June 30, 2005

Assets	General	Physical Plant and Equipment	Capital Projects	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 15,445,782	\$ 2,336,769	\$ 11,209,312	\$ 4,153,731	\$ 33,145,594
Receivables:					
Property tax:					
Current year	170,440	17,428	-	26,072	213,940
Succeeding year	33,014,186	5,794,795	-	5,573,356	44,382,337
Other	51,703	-	100,000	622	152,325
Due from other funds	227	-	-	-	227
Due from other governments	1,717,040	2,701	943,586	-	2,663,327
Prepaid expenses	642,395	-	-	-	642,395
Total assets	\$ 51,041,773	\$ 8,151,693	\$ 12,252,898	\$ 9,753,781	\$ 81,200,145
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 922,607	\$ 275,490	\$ 4,035,213	\$ 17,928	\$ 5,251,238
Salaries and benefits payable	4,482,341	-	-	-	4,482,341
Due to other funds	8,215	-	-	-	8,215
Deferred revenue:					
Succeeding year property tax	33,014,186	5,794,795	-	5,573,356	44,382,337
Grant revenues	224,346	-	100,000	-	324,346
Total liabilities	38,651,695	6,070,285	4,135,213	5,591,284	54,448,477
Fund balance:					
Reserved for:					
Phase III	93,144	-	-	-	93,144
Prepaid expenses	642,395	-	-	-	642,395
Grant programs	2,119,390	-	-	-	2,119,390
Debt service	-	-	-	471,401	471,401
Unreserved:					
Designated	4,856,218	-	-	-	4,856,218
Undesignated reported in:					
General Fund	4,678,931	-	-	-	4,678,931
Special revenue funds	-	2,081,408	-	3,691,096	5,772,504
Capital Projects Fund	-	-	8,117,685	-	8,117,685
Total fund balances	12,390,078	2,081,408	8,117,685	4,162,497	26,751,668
Total liabilities and fund balances	\$ 51,041,773	\$ 8,151,693	\$ 12,252,898	\$ 9,753,781	\$ 81,200,145

See Notes to Basic Financial Statements.

Iowa City Community School District

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

June 30, 2005

Total governmental fund balances		\$ 26,751,668
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.		77,957,007
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		151,703
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	\$ 5,712,544	
Internal balances	(626)	
Current liabilities	<u>(2,870,936)</u>	2,840,982
Internal service funds allocated to business-type activities		(108,696)
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.		(104,467)
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	(2,365,000)	
General obligation bonds, noncurrent	(34,080,000)	
Early retirement, current	(549,420)	
Compensated absences, current	(363,955)	
Unamortized premium on general obligation bonds	(298,419)	
Unamortized bond issuance costs	<u>51,281</u>	<u>(37,605,513)</u>
Net assets of governmental activities		<u>\$ 69,882,684</u>

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, 2005

	General	Physical Plant and Equipment Levy
Revenues:		
Local sources:		
Local tax	\$ 36,029,452	\$ 3,349,897
Tuition	1,921,314	-
Other	2,391,369	45,659
State sources	40,388,302	1,152
Federal sources	2,874,194	-
Total revenues	83,604,631	3,396,708
Expenditures:		
Current:		
Instruction:		
Regular instruction	36,571,232	-
Special instruction	17,050,297	-
Other instruction	894,042	-
	54,515,571	-
Support services:		
Student services	2,710,002	-
Instructional services	4,798,911	-
Administration services	7,067,964	-
Operation and maintenance	7,700,810	-
Transportation services	2,670,509	-
	24,948,196	-
Noninstructional programs	271,913	-
Other, AEA flowthrough	3,127,792	-
Capital outlay	-	2,322,785
Debt service:		
Principal	-	-
Interest and fiscal charges	-	-
	-	2,322,785
Total expenditures	82,863,472	2,322,785
Excess (deficiency) of revenues over expenditures	741,159	1,073,923
Other financing sources (uses):		
Transfers in	-	-
Transfers out	(215,804)	(633,890)
Total other financing sources (uses)	(215,804)	(633,890)
Net change in fund balances	525,355	440,033
Fund balances, beginning of year	11,864,723	1,641,375
Fund balances, end of year	\$ 12,390,078	\$ 2,081,408

See Notes to Basic Financial Statements.

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 4,990,091	\$ 44,369,440
-	-	1,921,314
502,068	2,117,260	5,056,356
-	1,746	40,391,200
975,149	-	3,849,343
<u>1,477,217</u>	<u>7,109,097</u>	<u>95,587,653</u>
-	-	36,571,232
-	-	17,050,297
-	2,123,222	3,017,264
-	<u>2,123,222</u>	<u>56,638,793</u>
-	-	2,710,002
-	-	4,798,911
-	1,593,270	8,661,234
69,077	-	7,769,887
-	-	2,670,509
<u>69,077</u>	<u>1,593,270</u>	<u>26,610,543</u>
-	-	271,913
-	-	3,127,792
26,187,356	-	28,510,141
-	2,650,000	2,650,000
-	1,579,480	1,579,480
<u>26,187,356</u>	<u>4,229,480</u>	<u>32,739,621</u>
26,256,433	7,945,972	119,388,662
<u>(24,779,216)</u>	<u>(836,875)</u>	<u>(23,801,009)</u>
-	849,694	849,694
-	-	(849,694)
-	<u>849,694</u>	-
(24,779,216)	12,819	(23,801,009)
32,896,901	4,149,678	50,552,677
<u>\$ 8,117,685</u>	<u>\$ 4,162,497</u>	<u>\$ 26,751,668</u>

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, 2005**

Net change in fund balances, total governmental funds		\$ (23,801,009)
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	\$ 27,607,472	
Depreciation expense	<u>(2,781,395)</u>	24,826,077
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, change in deferred revenues		40,655
Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets.		2,650,000
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.		252,151
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	(137,637)	
Change in compensated absences	<u>1,683</u>	(135,954)
Internal service funds are used by management to charge the costs of certain activities to individual funds.		1,149,825
Change in Internal Service Fund allocation to business-type activities.		(46,034)
Amortization of bond premium and bond issuance costs.		19,384
Change in net assets of governmental activities		<u><u>\$ 4,955,095</u></u>

See Notes to Basic Financial Statements.

Iowa City Community School District

Statement of Net Assets
 Proprietary Funds
 June 30, 2005

	Nonmajor Enterprise Fund - School Nutrition	Internal Service Fund
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,476,212	\$ 5,563,397
Accounts receivable	-	149,147
Due from other funds	8,614	-
Inventories	48,382	-
Prepaid expenses and deposits	35,982	-
Total current assets	1,569,190	5,712,544
Noncurrent assets, capital assets, net of accumulated depreciation	285,874	-
Total assets	1,855,064	5,712,544
Liabilities		
Current liabilities:		
Accounts payable	6,897	3,250
Salaries and benefits payable	111,378	-
Claims payable	-	2,867,686
Due to other funds	-	626
Total liabilities	118,275	2,871,562
Net Assets		
Invested in capital assets, net of related debt	285,874	-
Unrestricted	1,450,915	2,840,982
Total net assets	1,736,789	\$ 2,840,982

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.

Net assets to business-type activities	108,696
	\$ 1,845,485

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, 2005

	Nonmajor Enterprise Fund - School Nutrition	Internal Service Funds
Operating revenue:		
Charges for services:		
Food sales	\$ 1,956,544	\$ -
Internal service charges	-	5,877,537
Employee contributions	-	1,493,448
Total operating revenue	1,956,544	7,370,985
Operating expenses:		
Food consumed	1,440,916	-
Salaries and benefits	1,172,987	-
Supplies, services, and repairs	121,401	-
Administrative expense	30,000	-
Depreciation	45,177	-
Food and meal delivery:		
Salaries and benefits	162,264	-
Truck expenses	8,400	-
Depreciation	6,386	-
Claims, losses, and administrative fees	-	6,224,205
Other	-	53,205
Total operating expenses	2,987,531	6,277,410
Operating income (loss)	(1,030,987)	1,093,575
Nonoperating revenues:		
Federal appropriations	1,013,964	-
State appropriations	36,443	-
Federal food commodities	180,769	-
Interest income	24,274	56,250
Total nonoperating revenues	1,255,450	56,250
Changes in net assets	224,463	1,149,825
Net assets, beginning of year	1,512,326	1,691,157
Net assets, end of year	\$ 1,736,789	\$ 2,840,982

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, 2005

Net changes in net assets in enterprise funds. \$ 224,463

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.

Change in net assets of business-type activities

46,034
\$ 270,497

See Notes to Basic Financial Statements.

Iowa City Community School District

Statement of Cash Flows
 Proprietary Funds
 Year Ended June 30, 2005

	Nonmajor Enterprise Fund - School Nutrition	Internal Service Funds
Cash Flows from Operating Activities:		
Cash received from sales of breakfasts and lunches	\$ 1,956,544	\$ -
Cash received from charges for service	-	5,877,537
Cash received from employees for benefits	-	1,572,493
Cash payments to suppliers for goods and services	(1,431,828)	(93,193)
Cash payments to employees for services	(944,800)	-
Cash payments for employee benefits	(390,217)	-
Cash payments for claims, losses and administrative fees	-	(5,674,998)
Net cash provided by (used in) operating activities	(810,301)	1,681,839
Cash Flows from Noncapital Financing Activities:		
Operating grants received	1,048,711	-
Receipts from interfund accounts	6,077	337
Net cash provided by noncapital funding activities	1,054,788	337
Cash Flows from Capital and Related Financing Activities, acquisition of capital assets	(151,296)	-
Cash Flows from Investing Activities, interest on cash and cash equivalents	24,274	56,250
Net increase in cash and cash equivalents	117,465	1,738,426
Cash and Cash Equivalents:		
Beginning	1,358,747	3,824,971
Ending	\$ 1,476,212	\$ 5,563,397
Operating income (loss)	\$ (1,030,987)	\$ 1,093,575
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	51,563	-
Federal food commodities consumed	182,465	-
Change in assets and liabilities:		
Decrease in accounts receivable	-	79,045
(Increase) in purchased inventory	(1,832)	-
(Increase) in prepaid expenses and deposits	(4,215)	-
(Decrease) in accounts payable	(7,529)	(39,988)
Increase in salaries and benefits payable	234	-
Increase in claims payable	-	549,207
Total adjustments	220,686	588,264
Net cash provided by (used in) operating activities	\$ (810,301)	\$ 1,681,839
Noncash Investing, Capital and Financing Activities, food commodities donated to the District from the U.S. Department of Agriculture	\$ 180,769	\$ -

See Notes to Basic Financial Statements.

Iowa City Community School District

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2005

	Private Purpose Trust Fund		Agency Funds
	Winbigler Estate Trust Fund		
Assets , cash and cash equivalents	\$ 71,550	\$	54,158
Liabilities , due to private individuals	-		54,158
Net Assets , reserved for needs of students in need of financial assistance	<u>\$ 71,550</u>	<u>\$</u>	<u>-</u>

See Notes to Basic Financial Statements.

Iowa City Community School District

Statement of Changes in Fiduciary Net Assets - Fiduciary Funds
Year Ended June 30, 2005

	Private Purpose Trust Fund	Winbigler Estate Trust Fund
Additions, local sources, interest	\$ 1,230	
Deductions, noninstructional programs supplies		1,230
Changes in net assets		-
Net assets, beginning of year		71,550
Net assets, end of year	\$	<u>71,550</u>

See Notes to Basic Financial Statements.

Iowa City Community School District

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 component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on 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.

Iowa City Community School District

Notes to Basic Financial Statements

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.

Iowa City Community School District

Notes to Basic Financial Statements

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.

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. 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.

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.

Iowa City Community School District

Notes to Basic Financial Statements

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.

Iowa City Community School District

Notes to Basic Financial Statements

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 which approximates fair value.

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 accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. 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, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2004.

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.

Iowa City Community School District

Notes to Basic Financial Statements

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:

<u>Description</u>	<u>Threshold</u>
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

<u>Description</u>	<u>Estimated Lives</u>
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, 2005, has also been accrued as a liability as of June 30, 2005.

Deferred and unearned 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.

Iowa City Community School District

Notes to Basic Financial Statements

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

Unearned 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, 2005. 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.

Net assets: Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt, excludes unspent debt proceeds which amounted to \$6,381,705 as of June 30, 2005. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

Interfund activity: 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.

Iowa City Community School District

Notes to Basic Financial Statements

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

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

Interest rate risk: As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy requires operating funds to be invested in investments that mature within three hundred and ninety-seven days or less. When investing other than operating funds, the investments must mature according to the needs of the funds. Operating funds of the District are funds which are reasonably expected to be used during a current budget year or within fifteen months of receipt.

As of June 30, 2005, the District's investment balances and maturities were as follows:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 to 5	6 to 10	More than 10
Iowa Joint Investment Trust	\$ 19,878,603	\$ 19,878,603	\$ -	\$ -	\$ -

Credit risk: The Board authorizes the District to invest funds in excess of current needs in interest-bearing savings, money market and checking accounts at the School District's authorized depositories; the Iowa Schools Joint Investment Trust Program; obligations of the United States governments, its agencies and instrumentalities; certificates of deposit and other evidences of deposit at federally insured Iowa depository institutions.

As of June 30, 2005, the District's investments were rated as follows:

Investment Type	Moody Investor Services	Standard and Poor's
Iowa Schools Joint Investment Trust	Aaa	-

Concentration of credit risk: The District's general investment policy is to apply the prudent-person rule: In making investments, the District shall exercise the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use to meet the goals of the investment program.

Custodial credit risk: Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. It is the District's policy to require that time deposits in excess of FDIC insurable limits be secured by collateral or private insurance to protect public deposits in a single financial institution if it were to default. As of June 30, 2005, none of the District's deposit bank balance or investments were exposed to custodial credit risk.

Iowa City Community School District

Notes to Basic Financial Statements

Note 3. Interfund Receivables and Payables

Individual interfund receivable and payable balances as of June 30, 2005, are as follows:

Receivable Fund	Payable Fund	Amount
Nonmajor Enterprise Fund, School Nutrition	Major Fund, General Fund	\$ 8,215
Nonmajor Enterprise Fund, School Nutrition	Nonmajor Funds, Internal Service Fund	399
Major Fund, General Fund	Nonmajor Funds, Internal Service Fund	227

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, 2005, is as follows:

Transfer To	Transfer From	Amount
Nonmajor Funds:		
Special Revenue Funds:	Major Funds:	
Student Activity	General Fund	\$ 215,804
Debt Service	Physical Plant and Equipment Levy	633,890

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.

Iowa City Community School District

Notes to Basic Financial Statements

Note 5. Capital Assets

Capital assets activity for the year ended June 30, 2005, is as follows:

Governmental Activities	Balance, Beginning of Year	Increases	Decreases	Balance, End of Year
Capital assets not being depreciated:				
Land	\$ 3,001,989	\$ -	\$ -	\$ 3,001,989
Construction-in-progress	6,418,751	23,215,215	(2,962,903)	26,671,063
Total capital assets not being depreciated	9,420,740	23,215,215	(2,962,903)	29,673,052
Capital assets being depreciated:				
Buildings	70,984,687	6,732,641	(12,463)	77,704,865
Improvements other than buildings	4,415,123	281,429	-	4,696,552
Furniture, equipment and vehicles	12,610,613	341,090	(45,003)	12,906,700
Total capital assets being depreciated	88,010,423	7,355,160	(57,466)	95,308,117
Less accumulated depreciation for:				
Buildings	30,611,554	1,420,889	(12,463)	32,019,980
Improvements other than buildings	2,815,986	193,093	-	3,009,079
Furniture, equipment and vehicles	10,872,693	1,167,413	(45,003)	11,995,103
Total accumulated depreciation	44,300,233	2,781,395	(57,466)	47,024,162
Total capital assets being depreciated, net	43,710,190	4,573,765	-	48,283,955
Governmental activities capital assets, net	\$ 53,130,930	\$ 27,788,980	\$ (2,962,903)	\$ 77,957,007

Business-Type Activities	Balance, Beginning of Year	Increases	Decreases	Balance, End of Year
Furniture, equipment and vehicles	\$ 516,869	\$ 151,296	\$ (12,354)	\$ 655,811
Less accumulated depreciation	330,728	51,563	(12,354)	369,937
Business-type activities capital assets, net	\$ 186,141	\$ 99,733	\$ -	\$ 285,874

Iowa City Community School District

Notes to Basic Financial Statements

Note 5. Capital Assets (Continued)

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$ 2,055,154
Special	402,197
Other	100,011

Support services:

Instructional services	7,410
Administration services	23,877
Operation and maintenance	121,584

2,710,233

Unallocated depreciation

71,162

Total governmental activities depreciation expense

\$ 2,781,395

Business-type activities, food services

\$ 51,563

Note 6. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2005, are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
General obligation bonds	\$ 38,495,000	\$ -	\$ 2,050,000	\$ 36,445,000	\$ 2,365,000
Real estate contract payable	600,000	-	600,000	-	-
Early retirement	411,783	549,420	411,783	549,420	549,420
Compensated absences	365,638	363,955	365,638	363,955	363,955
Total	<u>\$ 39,872,421</u>	<u>\$ 913,375</u>	<u>\$ 3,427,421</u>	<u>\$ 37,358,375</u>	<u>\$ 3,278,375</u>

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.

Iowa City Community School District

Notes to Basic Financial Statements

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, 2005, 14 District employees requested early retirement, to be payable during the year ending June 30, 2006. The benefits to be paid to these employees will be made in October 2005, and total \$549,420. During the year ended June 30, 2005, the District paid \$411,783 of early retirement benefits approved during the year ended June 30, 2004 from the Management Fund. In addition, \$1,840,706 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, 2005 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 3.000% to 3.875%. The proceeds were used to finance the construction of school buildings and acquisition of land for future school building site.

Iowa City Community School District

Notes to Basic Financial Statements

Note 6. Long-Term Liabilities (Continued)

Year Ending June 30,	Bond Issue of May 1, 2003		
	Interest Rates	Principal	Interest
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
		<u>\$ 8,945,000</u>	<u>\$ 2,376,435</u>

General obligation bond Series 2004 with an original issue of \$29,000,000 maturing through 2018 with rates ranging from 2.5 percent to 4.0 percent. 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
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
		<u>\$ 27,500,000</u>	<u>\$ 7,645,500</u>

Iowa City Community School District

Notes to Basic Financial Statements

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. The balance of the contract was paid in full as of June 30, 2005.

As of June 30, 2005, the District did not exceed its legal debt margin computed as follows:

Total assessed valuation	<u>\$ 3,107,894,455</u>
Debt limit, 5% of total assessed valuation	\$ 155,394,723
Amount of debt applicable to debt limitation, general obligation bonds	<u>36,445,000</u>
Excess of debt limit over debt outstanding, legal debt margin	<u>\$ 118,949,723</u>

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 percent of their annual covered salary and the District is required to contribute 5.75 percent of annual covered payroll. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$2,991,311, \$2,869,839 and \$2,780,115 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.

Iowa City Community School District

Notes to Basic Financial Statements

Note 8. Risk Management (Continued)

During the year ended June 30, 2005, employees of the District were covered by the District's health self-insurance plan. 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 \$7,475,862 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, 2005 and 2004 were as follows:

Self-Insurance Liability	Beginning	Claims and Changes in Estimates	Claims Payments	Ending
Health:				
2005	\$ 2,318,479	\$ 5,763,151	\$ 5,213,944	\$ 2,867,686
2004	2,029,381	4,626,631	4,337,533	2,318,479

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 \$3,127,792 for the year ended June 30, 2005. The District's actual constructive revenue and constructive expenses are included in the General Fund.

Note 10. Commitments

As of June 30, 2005, the District had outstanding construction commitments totaling approximately \$21,225,000. In addition, the District has a commitment to purchase 13 acres of land in western Iowa City for \$200,000.

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 \$13,819,000 as of June 30, 2005. 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, 2005.

Iowa City Community School District

Notes to Basic Financial Statements

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, 2005. Rental expense during the year ended June 30, 2005 was \$92,973.

Lease commitments as of June 30, 2005, for these leases is as follows:

Year ending June 30:

2006	\$	101,552
2007		39,808
2008		25,908
2009		6,477

Note 13. Contingencies

As of June 30, 2005, 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 2005, monthly payments were approximately \$6,500 per month.

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

The District adopted GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, during the year ended June 30, 2005. The Statement established and modified 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 required certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. This Statement also established and modified disclosure requirements for deposit risks.

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

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, issued November 2003, will be effective for the District beginning with its year ending June 30, 2006. 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.

Iowa City Community School District

Notes to Basic Financial Statements

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

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued April 2004. This Statement establishes uniform financial reporting standards for other postemployment benefit plans (OPEB plans) and supercedes existing guidance. The provisions of this Statement will be effective for the District beginning with its year ending June 30, 2008.

GASB 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.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers 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.

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, an amendment of GASB Statement No. 34, issued December 2004, will be effective for the District beginning with its year ending June 30, 2006. This Statement establishes and modifies requirements related to restrictions of net assets resulting from enabling legislation.

GASB Statement No. 47, *Accounting for Termination Benefits*, issued June 2005, will be effective for the District beginning with its year ending June 30, 2006. This Statement establishes accounting standards for termination benefits. In financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (early retirement incentives) when the offer is accepted and the amount can be estimated. A liability for involuntary termination benefits (severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated. In financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources.

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, 2005

	Governmental Fund Types Actual	Enterprise Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance- Positive (Negative)
				Original	Final	
Revenues:						
Local sources	\$ 51,347,110	\$ 1,980,818	\$ 53,327,928	\$ 51,598,415	\$ 51,598,415	\$ 1,729,513
State sources	40,391,200	36,443	40,427,643	40,879,740	40,879,740	(452,097)
Federal sources	3,849,343	1,194,733	5,044,076	2,752,845	2,752,845	2,291,231
Total revenues	95,587,653	3,211,994	98,799,647	95,231,000	95,231,000	3,568,647
Expenditures:						
Instruction	56,638,793	-	56,638,793	56,135,000	59,075,522	2,436,729
Support services	26,610,543	-	26,610,543	25,533,000	28,000,000	1,389,457
Noninstructional programs	271,913	2,987,531	3,259,444	3,126,500	3,300,000	40,556
Other expenditures	35,867,413	-	35,867,413	20,666,306	41,874,287	6,006,874
Total expenditures	119,388,662	2,987,531	122,376,193	105,460,806	132,249,809	9,873,616
Net change in fund balance, net assets	(23,801,009)	224,463	(23,576,546)	\$ (10,229,806)	\$ (37,018,809)	\$ 13,442,263
Fund balances, beginning of year	50,552,677	1,512,326	52,065,003			
Fund balances, end of year	\$ 26,751,668	\$ 1,736,789	\$ 28,488,457			

See Note to Required Supplementary Information.

Iowa City Community School District

Note to Required Supplementary Information – Budgetary Reporting

The Board of Education annually adopts and certifies a budget by program which includes all funds except for internal service funds, agency funds and private-purpose trust funds on the GAAP 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, 2005, the District adopted one budget amendment which increased the budgeted expenditures by \$26,789,003.

During the year ended June 30, 2005, 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, 2005

	Special Revenue			Total Nonmajor Governmental Funds
	Management	Student Activity	Debt Service	
Assets				
Cash and cash equivalents	\$ 2,642,506	\$ 1,058,576	\$ 452,649	\$ 4,153,731
Receivables:				
Property tax:				
Current year	7,320	-	18,752	26,072
Succeeding year	1,953,760	-	3,619,596	5,573,356
Other	-	622	-	622
Total assets	\$ 4,603,586	\$ 1,059,198	\$ 4,090,997	\$ 9,753,781
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ -	\$ 17,928	\$ -	\$ 17,928
Deferred revenue, succeeding year property tax	1,953,760	-	3,619,596	5,573,356
Total liabilities	1,953,760	17,928	3,619,596	5,591,284
Fund balance:				
Reserved for debt service	-	-	471,401	471,401
Unreserved, undesignated, reported in special revenue funds	2,649,826	1,041,270	-	3,691,096
Total fund balances	2,649,826	1,041,270	471,401	4,162,497
Total liabilities and fund balances	\$ 4,603,586	\$ 1,059,198	\$ 4,090,997	\$ 9,753,781

Iowa City Community School District

Combining Statement of Revenues, Expenditures and Changes in
Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2005

	Special Revenue		Debt Service	Total Nonmajor Governmental Funds
	Management	Student Activity		
Revenues:				
Local sources:				
Local tax	\$ 1,385,699	\$ -	\$ 3,604,392	\$ 4,990,091
Other	22,080	2,083,891	11,289	2,117,260
State sources	507	-	1,239	1,746
Total revenues	1,408,286	2,083,891	3,616,920	7,109,097
Expenditures:				
Current:				
Instruction, other instruction	-	2,123,222	-	2,123,222
Support services, administrative services	1,523,069	70,201	-	1,593,270
Other expenditures:				
Debt service:				
Principal	-	-	2,650,000	2,650,000
Interest and fiscal charges	-	-	1,579,480	1,579,480
Total expenditures	1,523,069	2,193,423	4,229,480	7,945,972
(Deficiency) of revenues over expenditures	(114,783)	(109,532)	(612,560)	(836,875)
Other financing sources, transfers in	-	215,804	633,890	849,694
Net change in fund balances	(114,783)	106,272	21,330	12,819
Fund balances, beginning of year	2,764,609	934,998	450,071	4,149,678
Fund balances, end of year	\$ 2,649,826	\$ 1,041,270	\$ 471,401	\$ 4,162,497

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, 2005

	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	\$ 2,808	\$ 2,628	\$ 982	\$ 456
Student activity fees, sales and miscellaneous	626,952	873,891	240,534	131,181
Total revenues	629,760	876,519	241,516	131,637
Expenditures:				
Current:				
Instruction, other instruction	590,329	808,142	206,916	121,811
Support services, administrative services	18,575	32,900	8,041	9,426
Total expenditures	608,904	841,042	214,957	131,237
Excess (deficiency) of revenues over expenditures	20,856	35,477	26,559	400
Other financing sources, transfers in	16,000	16,000	-	-
Net change in fund balances	36,856	51,477	26,559	400
Fund balances, beginning of year	470,122	286,497	64,397	46,057
Fund balances, end of year	\$ 506,978	\$ 337,974	\$ 90,956	\$ 46,457

Athletic Fund	District-Wide Activities Account	Vocational Auto Mechanics	Total Student Activity Funds
\$ 92	\$ 75	\$ 21	\$ 7,062
192,929	4,779	6,563	2,076,829
193,021	4,854	6,584	2,083,891
388,238	3,174	4,612	2,123,222
-	1,259	-	70,201
388,238	4,433	4,612	2,193,423
(195,217)	421	1,972	(109,532)
183,804	-	-	215,804
(11,413)	421	1,972	106,272
23,751	21,193	22,981	934,998
\$ 12,338	\$ 21,614	\$ 24,953	\$ 1,041,270

Iowa City Community School District

Statement of Changes in Fiduciary
Assets and Liabilities - Agency Funds
Year Ended June 30, 2005

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
Flexible Benefits Account				
Assets,				
cash and cash equivalents	\$ 22,472	\$ 1,050,472	\$ 1,038,991	\$ 33,953
Liabilities,				
due to private individuals	\$ 22,472	\$ 1,050,472	\$ 1,038,991	\$ 33,953
School Children's Aid				
Assets,				
cash and cash equivalents	\$ 12,839	\$ 23,742	\$ 16,376	\$ 20,205
Liabilities,				
due to private individuals	\$ 12,839	\$ 23,742	\$ 16,376	\$ 20,205
Total Agency Funds				
Assets,				
cash and cash equivalents	\$ 35,311	\$ 1,074,214	\$ 1,055,367	\$ 54,158
Liabilities,				
due to private individuals	\$ 35,311	\$ 1,074,214	\$ 1,055,367	\$ 54,158

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,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 44,369,440	\$ 42,385,863	\$ 39,060,701	\$ 36,739,202
Tuition	1,921,314	1,675,367	1,789,749	1,659,095
Other	5,056,356	4,675,313	4,393,476	4,592,399
State sources	40,391,200	38,088,997	38,424,534	36,682,827
Federal sources	3,849,343	2,211,501	2,122,528	1,731,845
Total revenues	\$ 95,587,653	\$ 89,037,041	\$ 85,790,988	\$ 81,405,368
Expenditures:				
Instruction:				
Regular instruction	\$ 36,571,232	\$ 34,938,857	\$ 34,008,504	\$ 33,138,885
Special instruction	17,050,297	16,916,123	14,072,519	12,919,014
Other instruction	3,017,264	3,050,172	2,966,021	2,908,550
Support services:				
Student services	2,710,002	2,555,746	2,288,553	2,137,569
Instructional staff services	4,798,911	5,473,625	4,730,821	4,984,073
Administration services	8,661,234	8,339,612	8,757,421	7,423,849
Operation and maintenance of plant services	7,769,887	7,412,390	6,983,505	6,774,076
Transportation services	2,670,509	2,794,426	2,541,268	2,345,281
Noninstructional programs	271,913	271,862	255,004	231,893
Other expenditures:				
Facilities acquisition	28,510,141	9,939,999	4,567,357	2,902,281
Long-term debt:				
Principal	2,650,000	705,000	1,865,000	1,650,000
Interest and other charges	1,579,480	404,944	80,988	157,437
AEA flowthrough	3,127,792	3,035,870	3,187,081	3,099,086
Total expenditures	\$ 119,388,662	\$ 95,838,626	\$ 86,304,042	\$ 80,671,994

Iowa City Community School District

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

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	\$ 180,769
National School Lunch Program	10.555	77-1737	889,979
National School Breakfast Program	10.553	77-1737	160,428
Total nutrition cluster			1,050,407
Total U.S. Department of Agriculture			1,231,176
U.S. Army Corps of Engineers:			
Passed through Johnson County, Iowa:			
Flood Control Projects	12.106	N/A	5,753
Department of Housing and Urban Development:			
Passed through City of Iowa City:			
Community Development Block Grant	14.218	N/A	563
U.S. Department of Health and Human Services			
Passed through State of Iowa Department of Economic Development, Refugee and Entrant Assistance - Discretionary Grant			
	93.576	N/A	48,000
Passed through State of Iowa Department of Health and Human Services, Child Care and Development Block Grant			
	93.575	N/A	2,054
			50,054
U.S. Department of Education:			
Passed through State of Iowa Department of Education:			
Title I - Grants to Local Educational Agencies	84.010A	N/A	909,390
Title II - Improving Teacher Quality State Grant	84.367	N/A	476,835
Title V, Part A - Innovative Education Program Strategies	84.298A	N/A	50,709
Grants for State Assessments and Related Activities	84.369	N/A	21,801
Safe and Drug-Free Schools and Communities - State Grants	84.186A	77-6957	33,010
Vocational Education Basic Grants to States	84.048A	77-6957	93,910
Twenty-First Century Learning Centers	84.287A	N/A	426,875
Star School Projects	84.215K	N/A	3,239
Demonstration Capital Grant	84.215	N/A	1,000,000
Education for Homeless Children & Youth	84.196	N/A	25,000
			3,040,769

(Continued)

Iowa City Community School District

Schedule of Expenditures of Federal Awards (Continued)
 Year Ended June 30, 2005

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	2,650
Title III - English Language Acquisition	84.365	N/A	4,807
Special Education Grants to States	84.027	N/A	553,145
Education Technology Grants	84.318	N/A	67,466
			628,068
Passed through the University of Iowa, Title IIA - SNAG II	84.367	N/A	8,835
Direct Program: Impact Aid	84.041	N/A	37,867
Total U.S. Department of Education			3,715,539
Corporation for National Community Service:			
Passed through State Department,			
Learn and Serve America-School and Community	94.004	N/A	3,239
Total expenditures of federal awards			\$ 5,006,324

See Notes to Schedule of Expenditures of Federal Awards.

Iowa City Community School District

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

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, 2005. 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.

Note 3. Pass-Through Funding

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

Program Title	Federal CFDA Number	Amount Provided to Subrecipient
Title I - Grants to Local Educational Agencies (LEAs) (Title I, Part A of ESEA)	84.010A	\$ 21,000

Iowa City Community School District

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2005

Finding	Status	Corrective Action Plan or Other Explanation
Reportable Conditions in Internal Control		
04-II-A The District has insufficient segregation of duties over the payroll process.	Not corrected.	See corrective action plan at 05-II-A.
04-II-B The District has insufficient segregation of duties over the cash disbursement function.	Not corrected.	See corrective action plan at 05-II-B.
04-II-C The District has insufficient segregation of duties over the cash receipts function.	Not corrected.	See corrective action plan at 05-II-C.
04-II-D The District does not have a formal policy for approving new vendors.	Not corrected.	See corrective action plan at 05-II-D.
04-II-E The District has insufficient segregation of duties over student activity funds.	Not corrected.	See corrective action plan at 05-II-E.
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.	Not corrected.	See corrective action plan at 05-III-A.
04-III-B The District does not have a system in place to ensure employees fully funded by federal programs sign a semiannual certification.	Not corrected.	See corrective action plan at 05-III-B.
Instances of Noncompliance		
04-III-C The District did not provide Title II funds to eligible nonpublic schools.	Not corrected	See corrective action plan at 05-III-F.
Other Findings Related to Required Statutory Reporting		
04-IV-A The District exceeded the maximum deposit amounts stated in the Board resolution.	Not corrected.	See corrective action plan at 05-IV-A.
04-IV-B Disbursements exceeded the amended certified budget amounts in the support service and noninstructional programs.	Corrected	
04-IV-G <u>Finding 1:</u> The salaries and benefits payable were not properly documented in the Board minutes.	Corrected	
04-IV-G <u>Finding 2:</u> The District does not receive Certification of Publication related to notice of Board meetings.	Corrected	
04-IV-H The District does not keep adequate documentation supporting the number of open enrollment and total residential students.	Not corrected.	See corrective action plan at 05-IV-H.
04-IV-J The District made adjustments to the trial balances subsequent to submission of the CAR.	Not corrected.	See corrective action plan at 05-IV-J.

McGladrey & Pullen

Certified Public Accountants

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

To the Board of Education
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, 2005, which collectively comprise Iowa City Community School District's basic financial statements and have issued our report thereon dated September 15, 2005. 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.

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 05-II-A through 05-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 are 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 15, 2005.

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*. However, we noted certain immaterial instances of noncompliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 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, 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 15, 2005

McGladrey & Pullen

Certified Public Accountants

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

To the Board of Education
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, 2005. 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; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2005. 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 05-III-F.

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 05-III-A through 05-III-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 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 are 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 15, 2005

Iowa City Community School District

Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

I. Summary of the Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

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

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

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

Identification of major program:

CFDA Number	Name of Federal Program
84.010A	Title I - Grants to Local Educational Agencies
84.215	Demonstration Construction Grant

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

Auditee qualified as low-risk auditee? Yes No

(Continued)

Iowa City Community School District

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2005

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

05-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 continue to monitor the responsibilities and duties assigned to the current office personnel and will make adjustments and changes to mitigate the insufficient segregation of duties.

05-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.

(Continued)

Iowa City Community School District

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2005

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 continue to monitor the responsibilities and duties assigned to the current office personnel and will make adjustments and changes to mitigate the insufficient segregation of duties.

05-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 continue to monitor the responsibilities and duties assigned to the current office personnel and will make adjustments and changes to mitigate the insufficient segregation of duties.

05-II-D

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

Condition: A position has the ability to create a new vendor and the same position also is 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.

(Continued)

Iowa City Community School District

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2005

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.

05-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 insufficient 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 obtained 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.

(Continued)

Iowa City Community School District

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2005

III. Findings and Questioned Costs for Federal Awards

Reportable Conditions in Administering Federal Awards

05-III-A

Title I – Grants to Local Educational Agencies (CFDA 84.010A) Federal Award Year: 2004-2005
Title II – Improving Teacher Quality State Grant (CFDA 84.367) Federal Award Year: 2004-2005
Special Education Grants to States (CFDA 84.027) Federal Award Year: 2004-2005
Twenty-First Century Learning Centers (CFDA 84.287A) Federal Award Year: 2004-2005

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.

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 by 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 to 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 started with time studies for certain positions in December 2004 and will continue to monitor the use of time studies. The District has completed the documentation for split funded employee costs as related to Title I programs for the year ended June 30, 2006. The District will review the allocation of costs related to Title II programs which are completed on a full-time equivalent basis for schools as allowed by grant provisions. Also, the District has elected to reduce their special education deficit with the special education grants to states and thus, the payroll costs are not assigned to specific individuals.

(Continued)

Iowa City Community School District

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2005

05-III-B

**Title I – Grants to Local Educational Agencies (CFDA 84.010A) Federal Award Year: 2004-2005
Twenty-First Century Learning Center (CFDA 84.287A) Federal Award Year: 2004-2005**

Finding: The District does not have a system in place to 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 or Title I.

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 work to complete certification for personnel funded 100 percent by federal awards.

05-III-C

Title I – Grants to Local Educational Agencies (CFDA 84.010A) Federal Award Year: 2004-2005

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

Condition: Currently, the only monitoring procedures performed by the District over the subrecipients are reviewing reimbursement requests submitted by the subrecipient.

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

(Continued)

Iowa City Community School District

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2005

Recommendation: We recommend the District gain an understanding of the subrecipient's controls in place for meeting all requirements of the grant agreement. In addition, we recommend supporting detailed documentation of payroll expenditures should be requested by the District before reimbursement to the subrecipient. The District should review the documentation to support that the subrecipient is meeting the eligibility and reporting requirements. The District should consider obtaining a copy of any on-site visit reports or any audit reports performed in accordance with OMB Circular A-133 from the subrecipient and ensure that any findings are being corrected by the subrecipient. The District should also consider performing site visits to the subrecipients to review financial and programmatic records and observe operations.

Response and Corrective Action: The District recognizes the importance of monitoring the subrecipient's activities. The District will make reasonable attempts to obtain the supporting documentation, copies of audit reports and make site visits to review the subrecipient's operations.

Title I – Grants to Local Educational Agencies (CFDA 84.010A) Federal Award Year: 2004-2005

05-III-D

Finding: The District does not have a system in place to identify Federal award information and compliance requirements to the subrecipients.

Condition: Although, the subrecipient was informally notified of the approved allocation amount of Title I funds they were receiving, the District did not state that the funds were "federal" and did not include the CFDA number of the program in the notification.

Criteria: OMB Circular A-133 requires a pass-through entity to identify to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements at the time of the award.

Recommendation: We recommend the District formally communicate to the subrecipient that the funding is federal, as well as indicating the Federal awarding agency and the appropriate CFDA number.

Response and Corrective Action Plan: The District will make their communication to subrecipients of federal funding in formal written documents which includes the Federal awarding agency and the appropriate CFDA number.

05-III-E

Title I – Grants to Local Educational Agencies (CFDA 84.010A) Federal Award Year: 2004-2005

Finding: The District does not have a system in place to retain supporting documentation of the selection of schools for eligibility to participate in the program.

Condition: The District did not retain supporting documentation for the free and reduced lunch students reported in the Title I application for selection of schools.

(Continued)

Iowa City Community School District

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2005

Criteria: OMB Circular A-133 requires that school eligibility to participate in the Title I program be determined by the percentage of children from low income families. The District elected to determine the number of children from low income families based on free and reduced lunch eligibility.

Recommendation: We recommend the District retain documentation from the Grant Wood AEA database of students eligible for the free and reduced lunch program.

Response and Corrective Action Plan: The District's documentation for free and reduced lunch students used for the selection of schools was misplaced in error. The appropriate documentation exists for previous and succeeding years to support the District's policies and procedures.

Instances of Noncompliance

05-III-F

Title II – Improving Teacher Quality (CFDA 84.367) Federal Award Year: 2004-2005

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

Condition: Title II nonpublic allocation 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 that the District contact the Area Education Agency when the District is unable to coordinate the spending of the funds with the nonpublic school. We recommend that the contact with the Area Education Agency be written.

Response and Corrective Action: The District will continue to make these funds available to eligible nonpublic schools. All communication with the nonpublic school and Area Education Agency will be documented in writing.

IV. Other Findings Related to Required Statutory Reporting

05-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 October 2004 and April 2005 due to significant property tax payment receipts.

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

(Continued)

Iowa City Community School District

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2005

Response and Corrective Action Plan: The District approves maximum deposit amounts at levels appropriate for prudent business practice. On both dates cited above, the timing of the receipt of property tax payments (after weekend or holiday dates) resulted in a delay in the transfer of funds to the appropriate investment accounts. The District executed the proper transactions in accordance with its investment policy when the property tax receipts were available. In addition, the deposits were in interest bearing accounts during the time periods mentioned.

Conclusion: Response and corrective action plan accepted.

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

Disbursements for the year ended June 30, 2005 did not exceed the amounts budgeted in the final amended certified budget.

05-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.

05-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.

05-IV-E – Business Transactions with District Officials and Employees

No business transactions between the District and District officials and/or employees were noted.

05-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.

05-IV-G – Board Minutes

No transactions requiring Board approval which had not been approved in the Board minutes were noted.

05-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 dual enrolled students. The open enrollment counts for Clear Creek Amana School District did not agree to supporting documentation.

(Continued)

Iowa City Community School District

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2005

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 continue to 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.

05-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.

05-IV-J – Certified Annual Report

The Certified Annual Report (CAR) was filed with the Department of Education timely.

Finding: The District made an adjustment to the trial balance to adjust unearned revenue in the General Fund for grants in the amount of \$41,512. This represents cash received but not yet expended.

Recommendation: We recommend that 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, 2006. The District considers the above adjustment to be an auditor adjustment which is required by the Department of Education to be made in the subsequent year of the CAR.

Conclusion: Response and corrective action plan accepted.

Iowa City Community School District

Corrective Action Plan
Year Ended June 30, 2005

Current Number	Comment	Corrective Action Plan	Anticipated Date of Completion	Contact Person
Reportable Conditions in Internal Control				
05-II-A	The District has improper segregation of duties over the payroll process.	See corrective action plan at 05-II-A.	June 30, 2005	Paul Bobek
05-II-B	The District has improper segregation of duties over the cash disbursement function.	See corrective action plan at 05-II-B.	June 30, 2005	Paul Bobek
05-II-C	The District has improper segregation of duties over the cash receipts function.	See corrective action plan at 05-II-C.	June 30, 2005	Paul Bobek
05-II-D	The District does not have a formal policy for approving new vendors.	See corrective action plan at 05-II-D.	June 30, 2005	Paul Bobek
05-II-E	The District has improper segregation of duties over student activity funds.	See corrective action plan at 05-II-E.	June 30, 2005	Paul Bobek
Reportable Conditions in Administering Federal Awards				
05-III-A	The District does not have a system in place to support the allocation of split funded employees.	See corrective action plan at 05-III-A.	June 30, 2005	Paul Bobek
05-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 05-III-B.	June 30, 2005	Paul Bobek
05-III-C	The District does not have an adequate system in place for monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient is administering Federal awards in compliance with Federal requirements.	See corrective action plan at 05-III-C.	June 30, 2005	Paul Bobek
05-III-D	The District did not provide federal award information and compliance requirements to subrecipients.	See corrective action plan at 05-III-D.	June 30, 2005	Paul Bobek
05-III-E	The District did not maintain school eligibility documentation.	See corrective action plan at 05-III-E.	June 30, 2005	Paul Bobek

(Continued)