

# Des Moines Independent Community School District

Basic Financial Statements and Supplementary Information

06.30.2006

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# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Des Moines Independent Community School District as of and for the year ended June 30, 2006, 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Des Moines Independent Community School District as of June 30, 2006, 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.

As described in Note 11 to the basic financial statements, the District changed its method of accounting for net assets restricted by enabling legislation in accordance with Governmental Accounting Standards Board Statement No. 46 adopted by the District for the year ended June 30, 2006.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2006 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 the Budgetary Comparison Schedule on pages 45 through 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 supplementary information. However, we did not audit the information and express no opinion thereon.

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

*McGladrey & Pullen, LLP*

Davenport, Iowa  
November 7, 2006

## Des Moines Independent Community School District

### Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

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This Management's Discussion and Analysis is provided by the management of the Des Moines Independent Community School District (District) to offer readers an overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2006. We encourage readers to consider this Discussion and Analysis presented here in conjunction with the financial statements, which follow.

#### Financial Highlights

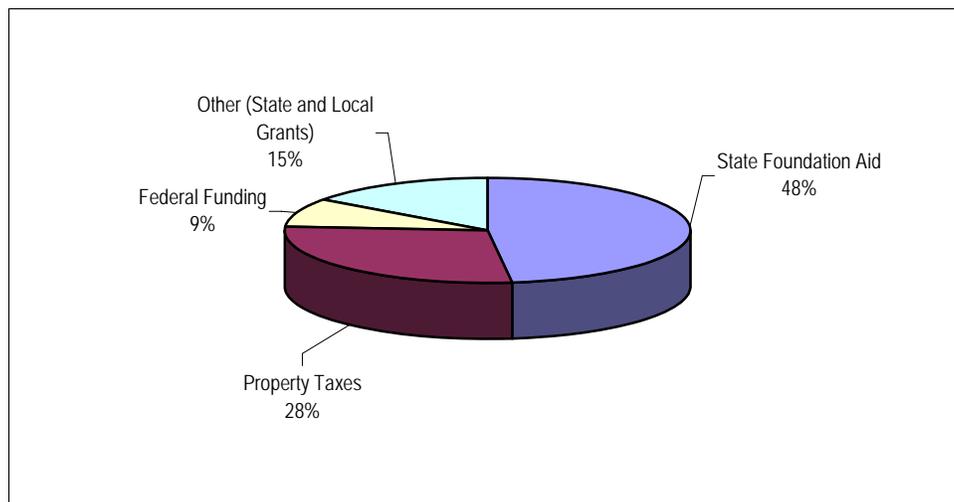
- **Budget:** The State of Iowa legislatively approved an allowable growth factor of 4 percent from fiscal year 2005 to fiscal year 2006 compared to 2 percent from fiscal year 2004 to fiscal year 2005 for the District's General Fund. This resulted in \$4.7 million of new regular program funding.

In April 2005, the board approved a budget for fiscal year 2006 for all funds of \$366.8 million (including transfers). In May 2006, the board approved a budget amendment to expenditures of \$5.2 million, primarily to increase the General Fund budget to recognize increased federal funds and state teacher compensation funding received during the fiscal year that were not anticipated when the original budget was adopted.

As in past years, the District continued to stay within its statutory budget in each of its legally required spending categories.

- **Revenue:** District-wide revenues were \$365.8 million, which primarily consisted of state aid, property taxes federal grants and sales taxes. General Fund revenues accounted for 81 percent of the District-wide revenue. Program specific revenues in the form of charges for services and grants, and contributions accounted for 24.4 percent of total fiscal year 2006 revenues.

The General Fund had \$295.3 million in revenues for fiscal year 2006, which primarily consisted of state aid and property taxes. General Fund revenues increased from \$276.8 million in fiscal year 2005 to \$295.3 million in fiscal year 2006. The 6.7 percent increase in General Fund revenues was attributable to increases in state aid and property taxes as a result of higher allowable growth, and increases in other state and federal resources in fiscal year 2006.



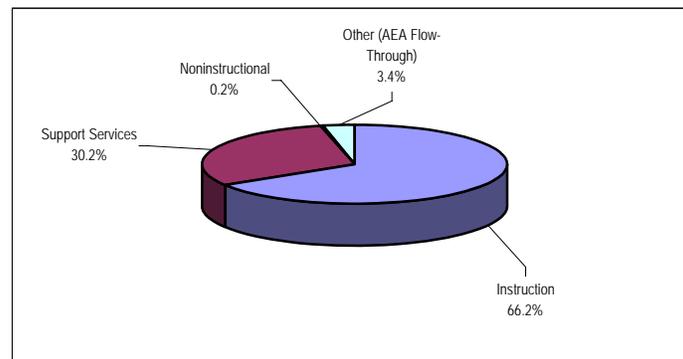
## Des Moines Independent Community School District

### Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

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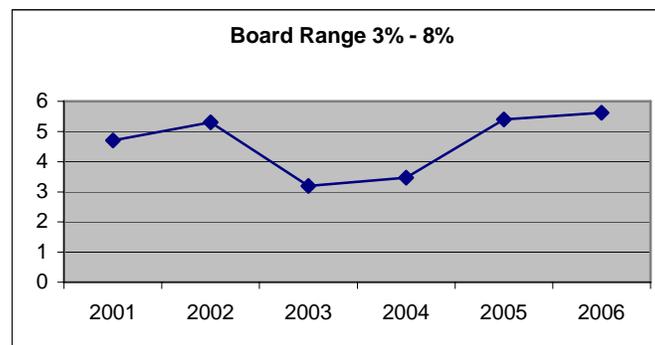
- **Expenses:** The District had \$310.5 million in expenses related to governmental activities, of which \$72.4 million of these expenses were offset by program specific charges for services or grants and contributions. General revenues of \$276.2 million provided for the remaining costs of these programs.

The General Fund had \$288.7 million in fiscal year 2006 expenses, which primarily consisted of instructional expenses. General Fund expenses increased from \$267.7 in fiscal year 2005 to \$288.7 in fiscal year 2006. The increase in General Fund expenses was primarily because of increased spending on compensation and on a multi-year implementation of new financial and student information systems.



- **General Fund Balance and Solvency Ratio:** The District's overall General Fund balance increased from \$20.6 million as of June 30, 2005 to \$27.2 million as of June 30, 2006. Correspondingly, the General Fund undesignated and unreserved portion of fund balance increased from \$15.4 million as of June 30, 2005 to \$16.7 million as of June 30, 2006. This increase is primarily because revenues exceeded budget expectations and expenditures were less than budget expectations.

The District's solvency ratio (unreserved-undesignated fund balance/General Fund revenues) increased slightly from 5.56 percent to 5.62 percent in 2006.



The Board guidelines set a range of 3 percent – 8 percent for the District's solvency ratio. The Iowa Association of School Boards (IASB) considers a solvency ratio to be within "target" or "good" if it is within 5 percent – 10 percent and, therefore, "can handle the unexpected." Additionally, the IASB believes a solvency ratio of 10 percent – 15 percent to be "excellent."

## Des Moines Independent Community School District

### Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

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- **Debt:** The District's total long-term debt decreased by a net of \$0.5 million during the current fiscal year. The total outstanding bond and notes debt at the end of the fiscal year is approximately \$3.5 million. In September 2005, the board authorized transfer of surplus funds, remaining after the final General Obligation bond payment was made in fiscal year 2005, from the Debt Service Fund to the Physical Plant and Equipment Levy (PPEL) fund in accordance with Iowa law.
- **Capital Projects and Schools First Plan:** Revenues from sales taxes increased \$1.1 million from fiscal year 2005 to 2006. Expenses increased by \$13.4 million from fiscal year 2005 to 2006 because seven schoolhouse renovation projects were in progress during fiscal year 2006 compared to two in 2005, and six schools were completed early in fiscal year 2006, compared to five schools completed early in fiscal year 2005.

In addition, the Schools First Renovation Plan underwent a thorough mid-program review including a comprehensive review of revenue projections, building priorities and needs, enrollments, project budgets and current construction market conditions. On July 12, 2005, the Board of Directors approved the recommendations that were part of this review which then substantially changed the longer range Plan. The recommendations included a combination of strategies; school closures, program relocation, attendance area restructuring, school mergers, disposal of property, acquisition of property, upgrading of completed and yet to be renovation projects, new building initiatives, new school buildings and major building additions.

#### Overview of the Financial Statements

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

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

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

## Des Moines Independent Community School District

### Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

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

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

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

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

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

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

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

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

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

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

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

## Des Moines Independent Community School District

### Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

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

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

	District-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	Activities that are not proprietary or fiduciary, such as instruction, administration, and building maintenance	Activities the District operates similar to private businesses such as school nutrition	Activities that the District administers resources on behalf of someone else, such as scholarships
Required financial statements	Statement of Net Assets	Balance Sheet	Statement of Net Assets	Statement of Fiduciary Net Assets
	Statement of Activities	Statement of Revenues, Expenditures, and Changes in Fund Balances	Statement of Revenues, Expenses, and Changes in Net Assets	Statement of Changes in Fiduciary Net Assets
Accounting basis	Accrual accounting	Modified accrual accounting	Statement of Cash Flows Accrual accounting	Accrual accounting
Measurement focus	Economic resources focus	Current financial focus	Economic resources focus	Economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital and short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or within specified periods after year-end of the year; expenditures when goods or services are received and liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

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

Des Moines Independent Community School District

Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2006

District-Wide Financial Analysis

**Net assets:** The following table presents a summary of the District's net assets for the year ended June 30, 2006 with comparison totals as of June 30, 2005.

	Governmental Activities 2006	Governmental Activities 2005	Business-Type Activities 2006	Business-Type Activities 2005	Total 2006	Total 2005
Current assets	\$ 202,912,984	\$ 187,350,920	\$ 1,282,971	\$ 1,492,693	\$ 204,195,955	\$ 188,843,613
Capital assets, net	197,065,925	170,225,201	2,391,487	2,363,403	199,457,412	172,588,604
Other noncurrent assets	285,629	154,750	-	-	285,629	154,750
<b>Total assets</b>	<b>400,264,538</b>	<b>357,730,871</b>	<b>3,674,458</b>	<b>3,856,096</b>	<b>403,938,996</b>	<b>361,586,967</b>
Current liabilities	147,332,438	143,440,684	571,202	550,589	147,903,640	143,991,273
Long-term liabilities	13,640,167	13,073,443	35,927	29,994	13,676,094	13,103,437
	<b>160,972,605</b>	<b>156,514,127</b>	<b>607,129</b>	<b>580,583</b>	<b>161,579,734</b>	<b>157,094,710</b>
Net assets:						
Invested in capital assets, net of debt	193,522,406	166,212,168	2,391,487	2,363,403	195,913,893	168,575,571
Restricted	31,370,418	25,767,882	-	-	31,370,418	25,767,882
Unrestricted	14,399,109	9,236,694	675,842	912,110	15,074,951	10,148,804
<b>Total net assets</b>	<b>\$ 239,291,933</b>	<b>\$ 201,216,744</b>	<b>\$ 3,067,329</b>	<b>\$ 3,275,513</b>	<b>\$ 242,359,262</b>	<b>\$ 204,492,257</b>

The District's combined net assets were significantly greater as of June 30, 2006 than June 30, 2005. The increase occurred primarily in the governmental funds net capital assets as a result of the aggressive activities relative to the District's capital project spending as part of the District's Schools First Renovation Plan. It should be noted that the District uses these capital assets to provide educational services; consequently, these assets are not available for future spending. Unrestricted net assets also increased primarily due to less than expected spending in the General and Capital Projects Fund and an increase in revenues in the General Fund.

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

Des Moines Independent Community School District

Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2006

**Changes in net assets:** The following schedule shows the changes in net assets for the year ended June 30, 2006 with comparison totals for the year ended June 30, 2005. The difference between revenues and expenditures represents the change in net assets.

	Governmental Activities 2006	Governmental Activities 2005	Business-Type Activities 2006	Business-Type Activities 2005	Total 2006	Total 2005
Revenues:						
Program revenues:						
Charges for services	\$ 22,276,927	\$ 22,980,574	\$ 8,579,576	\$ 8,608,944	\$ 30,856,503	\$ 31,589,518
Operating grants and contributions	48,330,052	42,485,746	8,639,090	8,049,101	56,969,142	50,534,847
Capital grants and contributions	1,771,836	896,674	-	-	1,771,836	896,674
General revenues:						
Property taxes	96,704,119	95,796,242	-	-	96,704,119	95,796,242
Sales tax, capital projects	31,448,902	30,341,530	-	-	31,448,902	30,341,530
Investment earnings	2,719,950	1,396,742	-	-	2,719,950	1,396,742
State aid and other state sources	144,337,954	137,241,881	-	-	144,337,954	137,241,881
Other including transfers from fiduciary fund	997,253	805,225	-	-	997,253	805,225
<b>Total revenues</b>	<b>348,586,993</b>	<b>331,944,614</b>	<b>17,218,666</b>	<b>16,658,045</b>	<b>365,805,659</b>	<b>348,602,659</b>
Expenses:						
Instruction	206,822,872	191,094,307	-	-	206,822,872	191,094,307
Support services	92,364,205	84,367,438	-	-	92,364,205	84,367,438
Noninstructional	1,367,676	1,149,267	-	-	1,367,676	1,149,267
Other expenses	9,957,051	9,604,686	17,426,850	16,595,349	27,383,901	26,200,035
<b>Total expenses</b>	<b>310,511,804</b>	<b>286,215,698</b>	<b>17,426,850</b>	<b>16,595,349</b>	<b>327,938,654</b>	<b>302,811,047</b>
<b>Revenues over (under) expenses before transfers</b>	<b>38,075,189</b>	<b>45,728,916</b>	<b>(208,184)</b>	<b>62,696</b>	<b>37,867,005</b>	<b>45,791,612</b>
Transfers	-	(622,806)	-	622,806	-	-
<b>Change in net assets</b>	<b>38,075,189</b>	<b>45,106,110</b>	<b>(208,184)</b>	<b>685,502</b>	<b>37,867,005</b>	<b>45,791,612</b>
Beginning, net assets	201,216,744	156,110,634	3,275,513	2,590,011	204,492,257	158,700,645
Ending, net assets	<b>\$ 239,291,933</b>	<b>\$ 201,216,744</b>	<b>\$ 3,067,329</b>	<b>\$ 3,275,513</b>	<b>\$ 242,359,262</b>	<b>\$ 204,492,257</b>

- The main revenue sources of state aid and other state sources, property and sales taxes account for 74 percent of total revenue.
- The District's expenses primarily relate to instruction and support services which account for 91 percent of the total expenses.

## Des Moines Independent Community School District

### Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

#### Governmental Activities

- State foundation aid and other state sources, property taxes and sales taxes are the primary sources of revenue for the District, 41 percent, 28 percent and 9 percent, respectively, of total revenues.
- Instruction constitutes the largest portion of expenditures at \$207 million or 66.6 percent. The District offers a wide array of programs including general and special education, vocational and college preparatory classes.
- The noninstructional and other expenses of the District accounted for 3.6 percent of total costs.
- Over 80 percent of the District's expenditures are for salaries and benefits.

**Net Cost:** The following table presents the total and net cost of the District's major governmental activities: instruction, support services, noninstructional programs and other expenses, with comparative totals for 2005.

	2006		2005	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	\$ 206,822,872	\$ (147,590,789)	\$ 191,094,307	\$ (136,356,934)
Other support services	92,364,205	(89,144,546)	84,367,438	(82,225,600)
Noninstructional programs	1,367,676	(1,296,401)	1,149,267	(1,110,874)
Other expenses	9,957,051	(101,253)	9,604,686	(159,296)
<b>Total expenses</b>	<b>\$ 310,511,804</b>	<b>\$ (238,132,989)</b>	<b>\$ 286,215,698</b>	<b>\$ (219,852,704)</b>

Net cost of governmental activities was financed by general revenues, which are made up of primarily property taxes and state aid. Federal and state governments and charges for services subsidized certain programs with grants and contributions and other local revenues of \$72.4 million or 23.3 percent of total governmental activities expenses.

#### Business-Type Activities – Change in Net Assets:

- The School Nutrition and Child Care programs constitute the majority of the business-type activities.
- The primary sources of income are federal revenues and charges for services.
- The School Nutrition's primary expenses are staff and commodities. The District's free and reduced participation continued to increase during the fiscal year. The School Nutrition Fund had a negative change in net assets of approximately \$(0.3) million for fiscal year 2006.
- The primary source of revenue for the Child Care program is child care fees and the primary expense is staff. The Child Care Fund had a change in net assets of \$55,430.

## Des Moines Independent Community School District

### Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

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#### Financial Analysis of the District's Funds

##### Governmental Funds Highlights

###### General Fund:

- The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$6.6 million, primarily because revenues exceeded budget expectations, expenditures were less than budget expectations and cash reserves increased. Therefore, the District's solvency ratio (unreserved-undesignated fund balance/General Fund revenues) increased from 5.56 percent to 5.62 percent.
- The increase in General Fund revenues over fiscal year 2005 was primarily attributable to increases in state aid and property taxes as a result of higher allowable growth, and increases in other state, federal and local resources in fiscal year 2006.
- The increase in General Fund expenses compared to fiscal year 2005 was primarily because of increased spending on compensation and on a multi-year implementation of new financial and student information systems.

###### Sales Tax Fund:

- The Sales Tax Fund has a total fund balance of \$19,135,824 for 2006 and \$15,512,214 for 2005. The net increase in the Sales Tax Fund for the fiscal year was \$3,623,610 primarily due to increase in local option sales tax and federal receipts over prior year.

##### Proprietary Fund Highlights

There are no major enterprise funds; however, the School Nutrition Fund net assets decreased from June 30, 2005 to June 30, 2006 by \$294,587. At the same time, the District's percent of students eligible for free and reduced meals increased from fiscal year 2005 to 2006, resulting in increased federal funding to cover these meals. Also, sales of food increased from fiscal year 2005 to fiscal year 2006, while meal rates remained the same as in the prior year.

##### Budgetary Highlights

In accordance with state law, the School Board annually adopts a budget following the public notice and hearing requirements. Although the budget documents presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared in accordance with accounting principles generally accepted in the United States of America. As is the District's practice, the District modified its adopted budget once during fiscal year 2006.

- Differences between the original and the final amended budget for the District can be summarized as follows:
  - ✓ The total original revenue budget of \$358.3 million, including other financing sources, was increased to \$363.0 million (an increase of \$4.7 million)
  - ✓ The total original expenditure budget of \$366.8 million, including other financing uses, was increased to \$372.0 million (an increase of 5.2 million)

## Des Moines Independent Community School District

### Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

- ✓ The above changes are primarily due to increases in federal funds and state teacher compensation funding received during the fiscal year, but not known at the time the original budget was adopted.
- ✓ The District, again, remained within its final certified budget for all District governmental funds as required by law.
- ✓ The District's General Fund, its principal operating fund, continues to remain financially solvent.
- ✓ The District received 101.1 percent of budgeted General Fund revenues because investment earnings, other local sources and intermediate sources were more than anticipated.
- ✓ The District spent 98.2 percent of budgeted General Fund expenditures. Expenditures were less than anticipated because spending on certain programs and certain line items were less than anticipated.
- ✓ At the end of fiscal year 2006, the Unspent Authorized Budget ratio for the General Fund was 13.5 percent of the total maximum budget compared to 6.65 percent at the end of fiscal year 2005. This ratio significantly improved from the prior year because the State School Budget Review Committee (SBRC) implemented its hold harmless provisions by allowing every district to add unspent authority for the authority lost when each district converted its accounting practices to generally accepted accounting practices. The District made this conversion in the late 1970's. This represented, for the District, a one time increase in additional unspent spending authority.

#### Capital Assets and Debt Administration

**Capital Assets:** As of June 30, 2006, the District had invested \$199.5 million in capital assets, including school buildings, athletic facilities, buses and other vehicles, computers, and other equipment. This amount represents a net increase of \$26.9 million from last year, primarily due to the new construction and renovation projects in the District's ten-year Schools First Renovation Plan.

The following schedule presents capital asset balances, net of accumulated depreciation, for the fiscal year ended June 30, 2006, compared with balances as of June 30, 2005:

	Governmental Activities 2006	Governmental Activities 2005	Business-Type Activities 2006	Business-Type Activities 2005	Total 2006	Total 2005
Land	\$ 3,027,849	\$ 2,377,748	\$ -	\$ 31,482	\$ 3,027,849	\$ 2,409,230
Construction-in-progress	56,928,211	63,816,411	95,707	-	57,023,918	63,816,411
Land improvements	2,200,106	1,838,593	-	-	2,200,106	1,838,593
Buildings and improvements	129,934,645	97,505,812	-	-	129,934,645	97,505,812
Vehicles, furniture and equipment	4,975,114	4,686,637	2,295,780	2,331,921	7,270,894	7,018,558
<b>Total</b>	<b>\$ 197,065,925</b>	<b>\$ 170,225,201</b>	<b>\$ 2,391,487</b>	<b>\$ 2,363,403</b>	<b>\$ 199,457,412</b>	<b>\$ 172,588,604</b>

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

## Des Moines Independent Community School District

### Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

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**Debt Administration:** As of June 30, 2006, the District had \$3,545,000 in bonds and notes outstanding, of which \$485,000 is due within one year. The following table presents a summary of the District's outstanding long-term debt for the year ended June 30, 2006, with comparative information as of June 30, 2005:

	2006	2005
Capital loan notes	\$ 2,545,000	\$ 3,015,000
Qualified zone academy bonds	1,000,000	1,000,000
<b>Total</b>	<b>\$ 3,545,000</b>	<b>\$ 4,015,000</b>

State statutes currently limit the amount of debt a district may issue to five percent of its total assessed valuation. The current debt limitation for the District is \$443 million which is substantially more than the District's outstanding debt.

Additional information about the District's debt can be found in Note 6 to the basic financial statements.

#### Factors Bearing on the District's Future

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

- District enrollment declined from September 2005 to September 2006 by 1 percent. Therefore, the total combined District cost for fiscal year 2007 will decline by approximately \$1.8 million.

#### Contacting the District's Financial Management

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

Des Moines Independent Community School District

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Current assets:			
Cash and investments	\$ 77,529,473	\$ 804,931	\$ 78,334,404
Restricted cash and investments	573,636	-	573,636
Property taxes receivable - current year	1,714,061	-	1,714,061
Property taxes receivable - succeeding year	101,152,617	-	101,152,617
Interest receivable	13,452	-	13,452
Other receivables, net of allowances for uncollectible of \$43,632	762,133	144,733	906,866
Due from other governments	20,585,923	145,184	20,731,107
Inventories	453,474	124,631	578,105
Assets held for resale	35,720	63,492	99,212
Prepaid expenses	92,495	-	92,495
<b>Total current assets</b>	<b>202,912,984</b>	<b>1,282,971</b>	<b>204,195,955</b>
Noncurrent assets:			
Restricted investments	269,000	-	269,000
Bond issuance costs	16,629	-	16,629
Capital assets - nondepreciable	59,956,060	95,707	60,051,767
Capital assets - depreciable, net	137,109,865	2,295,780	139,405,645
<b>Total capital assets</b>	<b>197,065,925</b>	<b>2,391,487</b>	<b>199,457,412</b>
<b>Total noncurrent assets</b>	<b>197,351,554</b>	<b>2,391,487</b>	<b>199,743,041</b>
<b>Total assets</b>	<b>\$ 400,264,538</b>	<b>\$ 3,674,458</b>	<b>\$ 403,938,996</b>

See Notes to Basic Financial Statements.

	Governmental Activities	Business-Type Activities	Total
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	\$ 7,839,344	\$ 88,997	\$ 7,928,341
General obligation bonds and notes	485,000	-	485,000
Accrued payroll	21,998,252	269,168	22,267,420
Other current liabilities	4,049,056	77,363	4,126,419
Due to other governments	4,093,701	613	4,094,314
Unearned revenue, succeeding year property taxes	101,152,617	-	101,152,617
Unearned revenue, other	1,969,198	18,409	1,987,607
Compensated absences	2,038,245	116,652	2,154,897
Special termination benefits	3,707,025	-	3,707,025
<b>Total current liabilities</b>	<b>147,332,438</b>	<b>571,202</b>	<b>147,903,640</b>
Noncurrent liabilities:			
Retrospective insurance rating plan	674,952	-	674,952
Compensated absences	873,377	35,927	909,304
Special termination benefits	9,016,690	-	9,016,690
Bond premiums	15,148	-	15,148
General obligation bonds and notes	3,060,000	-	3,060,000
<b>Total noncurrent liabilities</b>	<b>13,640,167</b>	<b>35,927</b>	<b>13,676,094</b>
<b>Total liabilities</b>	<b>160,972,605</b>	<b>607,129</b>	<b>161,579,734</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	193,522,406	2,391,487	195,913,893
Restricted for:			
Debt service	269,000	-	269,000
Donor-restricted purposes	3,058,433	-	3,058,433
Purpose restricted	4,319,818	-	4,319,818
Management levy	2,477,934	-	2,477,934
Physical plant and equipment levy	2,460,303	-	2,460,303
Public education and recreation levy	222,742	-	222,742
Sales tax levy	18,562,188	-	18,562,188
Unrestricted	14,399,109	675,842	15,074,951
<b>Total net assets</b>	<b>239,291,933</b>	<b>3,067,329</b>	<b>242,359,262</b>
<b>Total net assets and liabilities</b>	<b>\$ 400,264,538</b>	<b>\$ 3,674,458</b>	<b>\$ 403,938,996</b>

Des Moines Independent Community School District

Statement of Activities  
Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities:				
Instructional	\$ 206,822,872	\$ 11,123,854	\$ 47,664,591	\$ 443,638
Student services	17,175,275	-	189,840	-
Instructional support services	6,440,206	-	93,430	-
General administration	4,234,165	2,500	-	1,328,198
Building administration	16,616,658	-	-	-
Business and central administration	7,292,653	820,732	-	-
Plant operation and maintenance	30,416,184	-	25,362	-
Student transportation	10,189,064	412,934	346,663	-
Noninstructional	1,367,676	61,109	10,166	-
AEA support	9,855,798	9,855,798	-	-
Interest on long-term debt	101,253	-	-	-
<b>Total governmental activities</b>	<b>310,511,804</b>	<b>22,276,927</b>	<b>48,330,052</b>	<b>1,771,836</b>
Business-type activities:				
School nutrition	12,865,670	3,933,497	8,637,586	-
Child care	4,461,347	4,516,777	-	-
Other	99,833	129,302	1,504	-
<b>Total business-type activities</b>	<b>17,426,850</b>	<b>8,579,576</b>	<b>8,639,090</b>	<b>-</b>
<b>Total primary government</b>	<b>\$ 327,938,654</b>	<b>\$ 30,856,503</b>	<b>\$ 56,969,142</b>	<b>\$ 1,771,836</b>

General revenues:

Property taxes:
Levied for general purposes
Levied for management
Levied for property, plant, and equipment
Levied for playground
Sales tax, for capital projects
State foundation aid
Investment earnings
Other local sources
State sources
<b>Total general revenues</b>

Changes in net assets

Net assets, beginning of year

Net assets, end of year

See Notes to Basic Financial Statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Totals
\$ (147,590,789)	\$ -	\$ (147,590,789)
(16,985,435)	-	(16,985,435)
(6,346,776)	-	(6,346,776)
(2,903,467)	-	(2,903,467)
(16,616,658)	-	(16,616,658)
(6,471,921)	-	(6,471,921)
(30,390,822)	-	(30,390,822)
(9,429,467)	-	(9,429,467)
(1,296,401)	-	(1,296,401)
-	-	-
(101,253)	-	(101,253)
(238,132,989)	-	(238,132,989)
-	(294,587)	(294,587)
-	55,430	55,430
-	30,973	30,973
-	(208,184)	(208,184)
(238,132,989)	(208,184)	(238,341,173)
82,065,094	-	82,065,094
8,306,453	-	8,306,453
5,611,478	-	5,611,478
721,094	-	721,094
31,448,902	-	31,448,902
142,415,603	-	142,415,603
2,719,950	-	2,719,950
997,253	-	997,253
1,922,351	-	1,922,351
276,208,178	-	276,208,178
38,075,189	(208,184)	37,867,005
201,216,744	3,275,513	204,492,257
\$ 239,291,933	\$ 3,067,329	\$ 242,359,262

Des Moines Independent Community School District

Balance Sheet  
Governmental Funds  
June 30, 2006

	General	Sales Tax	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and investments	\$ 44,079,247	\$ 18,085,536	\$ 12,665,640	\$ 74,830,423
Restricted cash and investments	-	573,636	269,000	842,636
Property taxes receivable - current year	1,458,885	-	255,176	1,714,061
Property taxes receivable - succeeding year	85,769,508	-	15,383,109	101,152,617
Interest receivable	13,452	-	-	13,452
Other receivables	1,306	-	100,295	101,601
Due from other governments	12,655,806	7,930,117	-	20,585,923
Inventories	411,332	-	-	411,332
Assets held for sale	35,720	-	-	35,720
Prepaid items	66,506	-	25,989	92,495
<b>Total assets</b>	<b>\$ 144,491,762</b>	<b>\$ 26,589,289</b>	<b>\$ 28,699,209</b>	<b>\$ 199,780,260</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 1,493,564	\$ 5,288,004	\$ 915,184	\$ 7,696,752
Accrued payroll	21,978,719	2,478	17,055	21,998,252
Special termination benefits	50,440	-	2,267,241	2,317,681
Other current liabilities	1,898,588	2,117,142	33,326	4,049,056
Due to other governments	4,020,043	45,841	27,817	4,093,701
Deferred revenue	87,675,061	-	15,392,249	103,067,310
Compensated absences	203,351	-	-	203,351
<b>Total liabilities</b>	<b>117,319,766</b>	<b>7,453,465</b>	<b>18,652,872</b>	<b>143,426,103</b>
<b>Fund balances:</b>				
<b>Reserved for:</b>				
Inventories	411,332	-	-	411,332
Prepaid items	66,506	-	25,989	92,495
Assets held for sale	35,720	-	-	35,720
Purpose restricted	4,319,818	-	-	4,319,818
Restricted for East High School	-	8,633	-	8,633
Restricted for Greenwood Elementary	-	445,169	-	445,169
Restricted for Longfellow Elementary	-	100,759	-	100,759
Restricted for Roosevelt High School	-	19,075	-	19,075
Permanent trusts	-	-	10,454	10,454
Debt service	-	-	269,000	269,000
<b>Unreserved:</b>				
Designated	5,685,345	-	-	5,685,345
<b>Undesignated, reported in:</b>				
General Fund	16,653,275	-	-	16,653,275
Special revenue funds	-	-	9,740,894	9,740,894
Capital projects fund	-	18,562,188	-	18,562,188
<b>Total fund balances</b>	<b>27,171,996</b>	<b>19,135,824</b>	<b>10,046,337</b>	<b>56,354,157</b>
<b>Total liabilities and fund balances</b>	<b>\$ 144,491,762</b>	<b>\$ 26,589,289</b>	<b>\$ 28,699,209</b>	<b>\$ 199,780,260</b>

See Notes to Basic Financial Statements.

Des Moines Independent Community School District

Reconciliation of Total Governmental Fund Balances to Net Assets  
of Governmental Activities  
June 30, 2006

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Total governmental fund balances		\$	56,354,157
Amount reported for governmental activities in the statement of net assets are different because:			
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds:			
Land	\$	3,027,849	
Construction-in-progress		56,928,211	
Land improvements		7,821,049	
Buildings and improvements		200,973,979	
Vehicles, furniture and equipment		12,996,069	
Accumulated depreciation		(84,796,298)	196,950,859
Internal service funds are used by management to charge the costs of certain activities, such as self-insurance benefits for employees and print shop services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.			3,300,322
Certain liabilities, including bonds and notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. These liabilities at year-end consist of:			
Compensated absences		(2,688,900)	
General obligation bonds and notes payable		(3,545,000)	
Bond issuance costs		16,629	
Bond premiums		(15,148)	
Retrospective insurance rating plan		(674,952)	
Special termination benefit		(10,406,034)	(17,313,405)
<b>Net assets of governmental activities</b>			<b>\$ 239,291,933</b>

See Notes to Basic Financial Statements.

Des Moines Independent Community School District

Statement of Revenues, Expenditures and Changes in Fund Balances  
 Governmental Funds  
 Year Ended June 30, 2006

	General	Sales Tax	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Property taxes	\$ 82,065,094	\$ -	\$ 14,639,025	\$ 96,704,119
Other local sources	10,638,160	710,761	759,862	12,108,783
Sales tax, for capital projects	-	31,448,902	-	31,448,902
Investment earnings	1,884,195	631,690	204,065	2,719,950
Intermediate sources	7,427,928	-	-	7,427,928
State foundation aid	142,415,603	-	-	142,415,603
State sources	23,542,956	-	8,268	23,551,224
Federal sources	27,217,075	1,000,000	300,000	28,517,075
Student activities	76,824	-	2,995,733	3,072,557
<b>Total revenues</b>	<b>295,267,835</b>	<b>33,791,353</b>	<b>18,906,953</b>	<b>347,966,141</b>
<b>Expenditures:</b>				
<b>Current:</b>				
Instructional	191,039,086	-	8,647,630	199,686,716
Student services	17,263,980	-	-	17,263,980
Instructional support services	6,414,179	-	53,243	6,467,422
General administration	3,560,329	-	768,062	4,328,391
Building administration	16,069,667	-	572,648	16,642,315
Business and central administration	6,797,223	-	466,025	7,263,248
Plant operation and maintenance	28,735,722	-	1,496,502	30,232,224
Student transportation	8,442,675	-	1,010,204	9,452,879
Noninstructional	494,175	-	664,046	1,158,221
AEA support	9,855,798	-	-	9,855,798
Capital outlay	-	30,167,743	3,291,701	33,459,444
<b>Debt service:</b>				
Principal retirement	-	-	470,000	470,000
Interest	-	-	100,767	100,767
<b>Total expenditures</b>	<b>288,672,834</b>	<b>30,167,743</b>	<b>17,540,828</b>	<b>336,381,405</b>
<b>Excess of revenues over expenditures</b>	<b>6,595,001</b>	<b>3,623,610</b>	<b>1,366,125</b>	<b>11,584,736</b>
<b>Other financing sources (uses):</b>				
Proceeds from sale of capital assets	6,270	-	456,544	462,814
Transfers in	-	-	823,295	823,295
Transfers out	-	-	(823,295)	(823,295)
<b>Total other financing sources (uses)</b>	<b>6,270</b>	<b>-</b>	<b>456,544</b>	<b>462,814</b>
<b>Net changes in fund balances</b>	<b>6,601,271</b>	<b>3,623,610</b>	<b>1,822,669</b>	<b>12,047,550</b>
Fund balances, beginning of year	20,570,725	15,512,214	8,223,668	44,306,607
Fund balances, end of year	\$ 27,171,996	\$ 19,135,824	\$ 10,046,337	\$ 56,354,157

See Notes to Basic Financial Statements.

Des Moines Independent Community School District

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2006

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Net change in fund balances - total governmental funds \$ 12,047,550

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

Capital outlay	\$ 32,154,840	
Depreciation expense	(4,803,667)	
Proceeds from sale of capital assets	(462,814)	
Loss on sale of capital assets	(37,567)	
	26,850,792	26,850,792

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

Repayment of bond and note principal	470,000	
Amortization of premiums and bond issuance costs	(486)	
	469,514	469,514

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Increase in compensated absences	(82,350)	
Increase in retrospective insurance rating plan	(206,807)	
Increase in special termination benefits	(1,204,252)	
	(1,493,409)	(1,493,409)

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

		200,742
<b>Change in net assets of governmental activities</b>		<b>\$ 38,075,189</b>

See Notes to Basic Financial Statements.

Des Moines Independent Community School District

Statement of Net Assets  
 Proprietary Funds  
 June 30, 2006

	Nonmajor Enterprise Funds	Internal Service Funds
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 804,931	\$ 2,699,050
Other receivables, net of allowances for uncollectible of \$43,632	144,733	660,532
Due from other governments	145,184	-
Due from other funds	-	182,676
Inventories	124,631	42,142
Assets held for resale	63,492	-
<b>Total current assets</b>	<b>1,282,971</b>	<b>3,584,400</b>
Noncurrent assets, nondepreciable capital assets	95,707	-
Noncurrent assets, depreciable capital assets, net	2,295,780	115,066
<b>Total assets</b>	<b>\$ 3,674,458</b>	<b>\$ 3,699,466</b>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	\$ 88,997	\$ 142,592
Accrued payroll	269,168	-
Other current liabilities	77,363	-
Due to other funds	-	182,676
Due to other governments	613	-
Unearned revenue	18,409	54,505
Compensated absences	116,652	8,363
<b>Total current liabilities</b>	<b>571,202</b>	<b>388,136</b>
Noncurrent liabilities, compensated absences	35,927	11,008
<b>Total liabilities</b>	<b>607,129</b>	<b>399,144</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	2,391,487	115,066
Unrestricted	675,842	3,185,256
<b>Total net assets</b>	<b>3,067,329</b>	<b>3,300,322</b>
<b>Total liabilities and net assets</b>	<b>\$ 3,674,458</b>	<b>\$ 3,699,466</b>

See Notes to Basic Financial Statements.

Des Moines Independent Community School District

Statement of Revenues, Expenses and Changes in Net Assets  
 Proprietary Funds  
 For the Year Ended June 30, 2006

	Nonmajor Enterprise Funds	Internal Service Funds
Operating revenues:		
Student activities	\$ 62,961	\$ -
Charges for services:		
Employee benefits	-	38,080,446
Sale of food	3,931,838	-
Child care	4,510,037	-
Miscellaneous	74,740	339,788
<b>Total operating revenues</b>	<b>8,579,576</b>	<b>38,420,234</b>
Operating expenses:		
Student services	12,626,373	-
Depreciation	278,082	10,068
Community services	4,516,581	-
Employee benefits	-	37,914,191
Miscellaneous	-	295,233
<b>Total operating expenses</b>	<b>17,421,036</b>	<b>38,219,492</b>
<b>Operating income (loss)</b>	<b>(8,841,460)</b>	<b>200,742</b>
Nonoperating revenues:		
Other local sources	89,434	-
State sources	143,934	-
Federal sources	8,405,722	-
(Loss) on disposal of capital assets	(5,814)	-
<b>Total nonoperating revenues</b>	<b>8,633,276</b>	<b>-</b>
<b>Changes in net assets</b>	<b>(208,184)</b>	<b>200,742</b>
Total net assets, beginning of year	3,275,513	3,099,580
Total net assets, end of year	<b>\$ 3,067,329</b>	<b>\$ 3,300,322</b>

See Notes to Basic Financial Statements.

Des Moines Independent Community School District

Statement of Cash Flows  
 Proprietary Funds  
 For the Year Ended June 30, 2006

	Nonmajor Enterprise Funds	Internal Service Funds
Cash flows from operating activities:		
Cash received from user charges	\$ 8,653,265	\$ 39,213,723
Cash payments to employees for services	(10,192,730)	(209,080)
Cash payments to suppliers for goods and services	(6,279,354)	(37,880,615)
<b>Net cash provided by (used in) operating activities</b>	<b>(7,818,819)</b>	<b>1,124,028</b>
Cash flows from noncapital financing activities:		
Payments to other funds	(5,083)	160,174
Payments from other funds	5,083	(160,175)
Nonoperating grants and donations received	8,127,513	-
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>8,127,513</b>	<b>(1)</b>
Cash flows from capital and related financing activities, acquisition of capital assets	(343,462)	-
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(34,768)</b>	<b>1,124,027</b>
Cash and cash equivalents, beginning of year	839,699	1,575,023
Cash and cash equivalents, end of year	<b>\$ 804,931</b>	<b>\$ 2,699,050</b>
Reconciliation of operating (loss) income to net cash provided by (used in) operating activities:		
Operating (loss) income	\$ (8,841,460)	\$ 200,742
Adjustments to reconcile operating (loss) income to net cash provided by (used in) operating activities:		
Depreciation	278,082	10,068
Commodities used	686,072	-
Changes in assets and liabilities:		
Receivables	2,120	763,603
Inventories	61,481	4,533
Prepaid expenses	350	90,540
Assets held for sale	(32,010)	-
Accounts payable and due to other governments	1,555	22,120
Unearned revenue	18,409	29,886
Accrued liabilities	(46,578)	2,536
Other current liabilities	53,160	-
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (7,818,819)</b>	<b>\$ 1,124,028</b>
Noncash items:		
Noncapital financing activities, commodities received from the U.S. Department of Agriculture	\$ 686,072	\$ -
Capital and related financing activities, transfer of capital assets to assets held for sale	31,482	-

See Notes to Basic Financial Statements.

Des Moines Independent Community School District

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2006

	Pension Trust	Private Purpose Trust	Agency
<b>Assets</b>			
Cash and cash equivalents	\$ -	\$ 481,792	\$ 217,639
Investments:			
Money market	9,261,453	-	-
U.S. government securities	55,898,402	240,215	-
Corporate equities	36,383,551	2,023	-
Mortgage-backed securities	55,990,327	-	-
Corporate obligations	34,221,602	-	-
Preferred stock	3,488,400	-	-
Municipal bonds	11,956,010	-	-
Other fixed income securities	2,548,200	-	-
Interest receivable	2,241,556	342	-
Other receivables	-	1,500	-
<b>Total assets</b>	<b>\$ 211,989,501</b>	<b>\$ 725,872</b>	<b>\$ 217,639</b>
<b>Liabilities</b>			
Accounts payable	\$ -	\$ -	\$ 4,632
Due to other governmental units	-	-	213,007
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>\$ 217,639</b>
<b>Net Assets</b>			
Held in trust for:			
Employees' pension benefits	211,989,501	-	
Scholarships	-	725,872	
<b>Total net assets</b>	<b>211,989,501</b>	<b>725,872</b>	
<b>Total liabilities and net assets</b>	<b>\$ 211,989,501</b>	<b>\$ 725,872</b>	

See Notes to Basic Financial Statements.

Des Moines Independent Community School District

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

For the Year Ended June 30, 2006

	Pension Trust	Private Purpose Trust
Additions:		
Contributions:		
Employer	\$ 1,977,727	\$ -
Employee	1,769,480	-
Private source	-	160
Investment earnings	4,596,909	20,964
<b>Total additions</b>	<b>8,344,116</b>	<b>21,124</b>
Deductions:		
Benefit payments	12,073,588	-
Resignation refunds	85,728	-
Death settlements	117,114	-
Scholarship awarded	-	17,824
Administrative costs	295,965	-
Other	-	300
<b>Total deductions</b>	<b>12,572,395</b>	<b>18,124</b>
<b>Changes in net assets</b>	<b>(4,228,279)</b>	<b>3,000</b>
Net assets, beginning of year	216,217,780	722,872
Net assets, end of year	<b>\$ 211,989,501</b>	<b>\$ 725,872</b>

See Notes to Basic Financial Statements.

## Des Moines Independent Community School District

### Notes to Basic Financial Statements

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

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

#### **Reporting entity:**

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

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

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

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

## Des Moines Independent Community School District

### Notes to Basic Financial Statements

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

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

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

Depreciation expense can be specifically identified by function and is included in the direct expenses of each function. Interest on general long-term debt is considered an indirect expense and is reported separately on the statement of activities.

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's proprietary funds are charges to customers for service. Operating expenses for the proprietary funds include the cost of services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

#### Measurement focus, basis of accounting and financial statement presentation:

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

## Des Moines Independent Community School District

### Notes to Basic Financial Statements

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

Fund financial statements: Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

The District reports the following major governmental funds:

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

**Sales Tax Fund**: The Sales Tax Fund accounts for all revenues and expenditures generated through the collection of local option sales taxes.

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

#### Significant accounting policies:

The more significant accounting policies of the District are described below:

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

## Des Moines Independent Community School District

### Notes to Basic Financial Statements

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

The District has invested in Guaranteed Interest Contracts (GIC) under the Iowa School Cash Anticipation Program (ISCAP). The ISCAP makes proceeds of short-term ISCAP warrants notes available in anticipation of the receipt of grant funds and ad valorem tax receipts in an amount legally available and sufficient to cover anticipated cash flow needs in the General Fund. As of June 30, 2006, there were no outstanding warrants under this arrangement.

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

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

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

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

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

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

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

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

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

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

## Des Moines Independent Community School District

### Notes to Basic Financial Statements

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

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

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

Long-term obligations: In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities on the statement of net assets. As of June 30, 2006, the District did not have any long-term obligations related to its business-type activities or proprietary funds. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

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

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

The Risk Management Fund and Collage Fund had deficit balances as of June 30, 2006, of \$233,582 and \$9,198, respectively. The District will continue to analyze alternatives to anticipated deficit balances in all fund types. Negative fund balance for the Collage Fund has decreased compared to the prior year. The negative balance for the Risk Management Fund is a combination of a third-party administration fee charged directly to the fund and premiums paid throughout the fiscal year for employees that are insured at the time of a monthly billing but do not receive a paycheck in the given month. The District will continue to identify these employees so that the appropriate accounts can be charged.

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

## Des Moines Independent Community School District

### Notes to Basic Financial Statements

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

Net assets restricted through enabling legislation as of June 30, 2006 consists of \$269,000 for debt service, \$2,477,934 for management levy, \$2,460,303 for physical plant and equipment levy, \$222,742 for public education and recreation levy, and \$18,562,188 for sales tax levy.

Donor restricted net assets include \$2,474,343 for net assets in the DMPS Fund which is to be used for the Smouse School, \$10,454 in the Permanent Fund to be used for teacher education and training, and \$573,636 included in the Sales Tax Fund to be used for future construction costs at various schools.

Other purposes restricted net assets of \$4,319,818 is for various grants and Medicaid programs.

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

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

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

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

#### Note 2. Legal Compliance

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

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

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

## Des Moines Independent Community School District

### Notes to Basic Financial Statements

#### Note 3. Cash and Cash Equivalents and Investments

As of June 30, 2006, the District's cash, cash equivalents and investments (including fiduciary fund assets) were as follows:

Cash and other deposits	\$ 47,712,403
Investments, primarily pension trust	242,154,251
	<u>\$ 289,866,654</u>

Authorized investments: The District is authorized by statute to invest public funds not currently needed for operating expenses in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured Iowa depository institutions approved by the Board; prime eligible bankers' acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts. However, the District's investment policy additionally limits investments in commercial paper to obligations at the time of purchase rated within the two highest ratings issued by nationally recognized statistical rating organizations with a maturity less than 270 days, with no more than five percent at the time of purchase placed in the second highest classification. The District's investment policy additionally limits investments in prime bankers' acceptances that mature within 270 days and that are eligible for purchase by a federal reserve bank.

The above description of authorized investments does not apply to the Des Moines Teachers' Retirement System (DMTRS) Pension Trust Fund, whose investments are governed by the underlying Plan document, or investments donated to the District. As of June 30, 2006, all District investments in corporate bonds and stocks were held by the DMTRS or represent stock donated to special revenue and fiduciary funds. All the District investments, other than donated investments, are held in securities backed by the U.S. Government or its agencies.

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. 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.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

#### Des Moines Independent Community School District (without DMTRS)

	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More than 10
Corporate equities - donated	\$ 1,491,015	N/A	N/A	N/A	N/A
U.S. Government securities	1,681,793	\$ -	\$ 217,899	\$ 1,463,894	\$ -
Commercial paper	5,939,498	5,939,498	-	-	-
Iowa Schools Joint Investment Trust	12,100,000	12,100,000	-	-	-
IPAS education	10,925,000	10,925,000	-	-	-
QZAB Sinking Fund, guaranteed investment contract	269,000	-	-	269,000	-
	<u>\$ 32,406,306</u>	<u>\$ 28,964,498</u>	<u>\$ 217,899</u>	<u>\$ 1,732,894</u>	<u>\$ -</u>

# Des Moines Independent Community School District

## Notes to Basic Financial Statements

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

#### Des Moines Teachers' Retirement System (DMTRS)

	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More than 10
Money Market Mutual Funds	\$ 9,261,453	\$ 9,261,453	\$ -	\$ -	\$ -
U.S. Government securities	55,898,402	-	8,874,472	39,776,000	7,247,930
Corporate equities	36,383,551	N/A	N/A	N/A	N/A
Mortgage-backed securities	55,990,327	-	128,529	115,323	55,746,475
Corporate obligations	34,221,602	2,029,760	12,426,630	16,549,472	3,215,740
Preferred stock	3,488,400	N/A	N/A	N/A	N/A
Municipal bonds	11,956,010	-	9,641,777	1,277,513	1,036,720
Other fixed income securities	2,548,200	-	2,548,200	-	-
	<u>\$ 209,747,945</u>	<u>\$ 11,291,213</u>	<u>\$ 33,619,608</u>	<u>\$ 57,718,308</u>	<u>\$ 67,246,865</u>

**Credit risk:** Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

As of June 30, 2006, the District's investments were rated as follows:

Investment Type	Moody's Investor's Service	Standard & Poor's
<b>Des Moines Teachers' Retirement System (DMTRS)</b>		
<b>Money Market:</b>		
Wells Fargo Short-Term Investment Fund G	N/R	N/R
<b>U.S. Government Securities:</b>		
Fed Natl Mtg Assn	Aaa	AAA
Fed Home Ln Bk	Aaa	AAA
Fed Home Ln Bk Tranche	Aaa	AAA
Fed Home Ln Mtg Corp	Aaa	AAA
Fed Natl Mtg Assn Med Term Nt	Aaa	AAA
Fed Home Ln Mtg Corp Med Term Note Tranche	Aaa	AAA
Fed Home Ln Mtg Corp Med Term Note	Aaa	AAA
<b>Corporate Equities</b>	N/R	N/R
<b>Mortgage-Backed Securities:</b>		
Fed Home Ln Mtg Corp	N/R	N/R
Fed Home Ln Mtg Corp Multiclass Mtg Partn Clfs Gtd Ser 1549 CL	N/R	N/R
Fed Natl Mtg Assn	N/R	N/R
Painewebber CMO Tr Ser H Coll Mtg Oblig CL H-4 Delay 30	N/R	AAA
Govt Natl Mtg Assn	N/R	N/R
Govt Natl Mtg Assn I	N/R	N/R
Govt Natl Mtg Assn II	N/R	N/R
Federal Home Ln Mtg Corp Multiclass Mtg Partn Clfs Gtd	N/R	N/R
Fed Home Ln Mtg Corp Multiclass Mtg Partn Clfs Gtd Ser 1099 CL	N/R	N/R
Govt Natl Mtg Assn Remic Ser 2002-67 CL BP *19 Day Delay*	N/A	N/A

## Des Moines Independent Community School District

### Notes to Basic Financial Statements

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

Investment Type	Moody's Investor's Service	Standard & Poor's
<b>Corporate Obligations:</b>		
Banc One Corp NTS Dtd 04/29/97 7.6000	A1	A
Indianapolis Pwr & Lt Co 1ST Mtg Dtd 08-01-92	BAA2	BBB-
Liberty Financial Co Dtd 11/12/98 6.750 11/15/2008	WR	A-
Gte Corp Debs Dtd 04/01/97 7.5100	BAA1	A
Countrywide Home Loan Med Term Note Tranche #Tr 00173 Ser H Dtd	A3	A
Goldman Sachs Group Inc Med Term Note Ser E Tranche #TR00046	AA3	A+
Bellsouth Cap Funding Dtd 02/16/00 7.750 02/15/2010	A2	A
Alcoa Inc Dtd 07/20/00 7.375 08/01/2010	A2	A-
British Telecom Plc Dtd 12/12/00 8.125 12/15/2010	BAA1	A-
Morgan Stanley Dean Witter Dtd 04/23/01 6.750 04/15/2011	AA3	A+
Goldman Sachs Group Inc Dtd 01/10/02 6.600 01/15/2012	AA3	A+
Verizon New Jersey Inc Dtd 01/22/02 5.875 01/17/2012	A3	A
National Rural Utils Dtd 03/07/02 7.250 03/01/2012	A2	A
J P Morgan Chase & Co. Dtd 03/13/02 6.625 03/15/2012	A1	A
Cit Group Hldgs Dtd 04/01/02 7.750 04/02/2012	A2	A
General Elec Cap Corp Tranche # Tr 00575	Aaa	AAA
Boeing Cap Corp Dtd 07/25/02 5.800 01/15/2013	A2	A
Times Mirror Co Deb Dtd 01/30/95	BA1	BB+
Intl Lease Finance Corp Dtd 04/29/03 5.875 05/01/2013	A1	AA-
Dow Chem Co Deb Dtd 08-17-93	A3	A-
Deere & Co. Dtd 04/17/02 6.950 04/25/2014	A3	A-
Comerica Bank Dtd 07/26/94 8.375 07/15/2024	A2	A
GTE Corp Dtd 2/1/97 7.9000	BAA1	A
<b>Preferred Stock:</b>		
ML Capital Trust IV 7.12% Pfd	A1	N/R
Harris Capital 7.375% Ser A Pfd	A1	N/R
<b>Municipal Bonds:</b>		
Philadelphia Pa Auth For Indl Dev Pension Fdg Retirement Sys-Ser A	Aaa	AAA
Delaware Riv Port Auth Pa & N J Port Auth Proj Bds	Aaa	AAA
Chicago Heights IL Taxable-Ser B	Aaa	AAA
St Paul Minn Taxable-Tax Increment-B	AA2	AAA
American Natl Red Cross Dtd 10/01/99 7.220 11/15/2010	Aaa	AAA
Reeves Cnty Tex Cfs Partn Taxable Dtd 04/27/05 6.400 12/01/2014	N/R	A
New York N Y Prefunded-Taxable-Ser C	A1	AAA
<b>Other Fixed Income Securities:</b>		
Prudential Ins Co. Amer 144A Dtd 07/01/95	A2	A

# Des Moines Independent Community School District

## Notes to Basic Financial Statements

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

Investment Type	Moody's Investor's Service	Standard & Poor's
<b>Des Moines Independent Community School District (without DMTRS)</b>		
Corporate Equities - Donated	N/R	N/R
<b>Commercial Paper:</b>		
Bavaria Universal Funding	A1	P1
Fountain Square	A1	P1
Stanfield Victoria	A1+	P1
<b>U.S. Government Securities:</b>		
FHLB	N/R	Aaa
US Treas Bond	N/R	Aaa
Treasury Strip	N/R	N/R

Concentration of credit risk: The District's investment policy seeks diversification to reduce overall portfolio risk while attaining market rates of return to enable the District to meet all anticipated cash requirements. The District's policy further restricts investments in prime bankers' acceptances and commercial paper to no more than ten percent of the investment portfolio for each type of investment, and no more than five percent of the investment portfolio can be invested in the securities of a single issuer. As of June 30, 2006, the District has \$5,939,498 invested in commercial paper.

More than 5 percent of the District's investments are in mortgage-backed securities with Federal Home Loan Mortgage Corporation and Federal National Mortgage Association. These investments are 7.36 percent and 15.37 percent, respectively, of the District's total investments. The investments in U.S. Government Securities, Iowa Schools Joint Investment Trust, Corporate Equities and Corporate obligations, are not subject to concentration of credit risk due to either being guaranteed by the U.S. government, considered a pooled investment, or none of the securities underlying the total investment type is more than 5 percent in any one issuer.

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. It is the City'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. Chapter 12c of the Code of Iowa requires all District funds be deposited into an approved depository and be either insured or collateralized.

As of June 30, 2006, the District's deposits with financial institutions were entirely covered by federal depository insurance or insured by the state through pooled collateral, state sinking funds and by the state's ability to assess for lost funds.

As of June 30, 2006, \$7,621,290 of the District's investments was uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name.

## Des Moines Independent Community School District

### Notes to Basic Financial Statements

#### Note 4. Interfund Receivables/Payables and Transfers

	Due From Other Funds	Due To Other Funds
Internal service funds	\$ 182,676	\$ 182,676

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

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

	Transfers In	Transfers Out
Nonmajor governmental funds	\$ 823,295	\$ 823,295

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

#### Note 5. Capital Assets

A summary of capital asset activity for the year ended June 30, 2006 is as follows:

Governmental Activities	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 2,377,748	\$ 660,806	\$ 10,705	\$ 3,027,849
Construction-in-progress	63,816,411	29,657,911	36,546,111	56,928,211
<b>Total capital assets, not being depreciated</b>	<b>66,194,159</b>	<b>30,318,717</b>	<b>36,556,816</b>	<b>59,956,060</b>
Capital assets, being depreciated:				
Land improvements	7,223,138	597,911	-	7,821,049
Buildings and improvements	165,500,374	36,499,310	1,025,705	200,973,979
Vehicles, furniture and equipment	12,237,472	1,285,013	348,016	13,174,469
<b>Total capital assets, being depreciated</b>	<b>184,960,984</b>	<b>38,382,234</b>	<b>1,373,721</b>	<b>221,969,497</b>
Less accumulated depreciation for:				
Land improvements	(5,384,545)	(236,398)	-	(5,620,943)
Buildings and improvements	(67,994,562)	(3,609,653)	(564,881)	(71,039,334)
Vehicles, furniture and equipment	(7,550,835)	(967,684)	(319,164)	(8,199,355)
<b>Total accumulated depreciation</b>	<b>(80,929,942)</b>	<b>(4,813,735)</b>	<b>(884,045)</b>	<b>(84,859,632)</b>
<b>Total capital assets, being depreciated, net</b>	<b>104,031,042</b>	<b>33,568,499</b>	<b>489,676</b>	<b>137,109,865</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 170,225,201</b>	<b>\$ 63,887,216</b>	<b>\$ 37,046,492</b>	<b>\$ 197,065,925</b>

## Des Moines Independent Community School District

### Notes to Basic Financial Statements

#### Note 5. Capital Assets (Continued)

Business-Type Activities	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 31,482	\$ -	\$ 31,482	\$ -
Construction-in-progress	-	95,707	-	95,707
<b>Total capital assets, not being depreciated</b>	<b>31,482</b>	<b>95,707</b>	<b>31,482</b>	<b>95,707</b>
Capital assets, being depreciated:				
Vehicles, furniture and equipment	4,473,267	247,755	116,522	4,604,500
Less accumulated depreciation	(2,141,346)	(278,082)	(110,708)	(2,308,720)
<b>Total capital assets, being depreciated, net</b>	<b>2,331,921</b>	<b>(30,327)</b>	<b>5,814</b>	<b>2,295,780</b>
<b>Business-type activities capital assets, net</b>	<b>\$ 2,363,403</b>	<b>\$ 65,380</b>	<b>\$ 37,296</b>	<b>\$ 2,391,487</b>

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

Governmental activities:	
Instructional	\$ 3,831,980
Noninstructional	154,070
Central support services	77,128
Plant operation and maintenance	39,377
Student transportation	701,112
Capital assets held by governments internal service funds are charged to the various functions based on their usage of the assets	10,068
<b>Total</b>	<b>\$ 4,813,735</b>
Business-type activities, school nutrition	<b>\$ 278,082</b>

#### Note 6. Noncurrent Liabilities and Notes Payable

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and accounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program.

## Des Moines Independent Community School District

### Notes to Basic Financial Statements

#### Note 6. Noncurrent Liabilities and Notes Payable (Continued)

There are no warrants outstanding as of June 30, 2006. The purpose of the short-term debt is to provide liquidity for governmental operations financed by property taxes, which are collected in semiannual payments due September 30 and March 31.

	Beginning Balance	Advances Received	Advances Repaid	Ending Balance
Short-term liabilities, Iowa School Cash Anticipation Program, warrants June 28, 2005	\$ 5,000,000	\$ -	\$ 5,000,000	\$ -

On March 13, 2002, the District issued \$450,000 of capital loan notes, with interest varying from 2.0 percent to 4.2 percent, for the purpose of installing energy-efficient heating and cooling systems. As of June 30, 2006, the capital loan notes liability was \$270,000. The maturity date for the notes is 2011.

On December 1, 2003, the District issued \$1,000,000 of qualified zone academy bonds for the purpose of remodeling projects at Weeks Elementary School. As of June 30, 2006, the qualified zone academy bonds liability was \$1,000,000. The District will make annual payments into the debt sinking fund with the total balance of the loan maturing in 2011.

On April 20, 2004, the District issued \$3,100,000 of capital loan notes, with interest varying from 2.50 percent to 3.75 percent, to finance energy improvements within school facilities of the District. As of June 30, 2006, the capital notes liability was \$2,275,000. The maturity date for the notes is 2011.

Annual debt service requirements to maturity as of June 30, 2006 are summarized as follows:

Year Ending June 30:	Governmental Activities		
	Principal	Interest	Total
2007	\$ 485,000	\$ 86,913	\$ 571,913
2008	490,000	71,898	561,898
2009	510,000	56,348	566,348
2010	520,000	39,078	559,078
2011	1,540,000	20,520	1,560,520
<b>Total</b>	<b>\$ 3,545,000</b>	<b>\$ 274,757</b>	<b>\$ 3,819,757</b>

## Des Moines Independent Community School District

### Notes to Basic Financial Statements

#### Note 6. Noncurrent Liabilities and Notes Payable (Continued)

As of June 30, 2006, the District did not exceed its legal debt margin, computed as follows:

Total assessed valuation	\$ 8,862,397,979
Debt limit of 5% of total assessed valuation	\$ 443,119,899
Amount of debt applicable to debt limit, total general obligation bonded debt	3,545,000
Excess of debt limit over bonded debt issued, legal debt margin	\$ 439,574,899

Noncurrent liability activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds and notes payable	\$ 4,015,000	\$ -	\$ 470,000	\$ 3,545,000	\$ 485,000
Retrospective insurance rating plan	468,145	206,807	-	674,952	-
Compensated absences	2,823,966	2,181,517	2,093,861	2,911,622	2,038,245
<b>Long-term liabilities</b>	<b>\$ 7,307,111</b>	<b>\$ 2,388,324</b>	<b>\$ 2,563,861</b>	<b>\$ 7,131,574</b>	<b>\$ 2,523,245</b>
Business-type activities,					
compensated absences	\$ 146,122	\$ 127,950	\$ 121,493	\$ 152,579	\$ 116,652

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

#### Note 7. Special Termination Benefits

In order to hasten early retirement, the District offered a special termination benefit to certified teachers and administrators. To be eligible to participate in this Plan, an employee must (1) have attained age 55; (2) have at least ten consecutive contract years of employment with the District; (3) have worked a minimum of 100 days during the contract year in which he or she elects to participate in this Plan; (4) have not received an official notice of lay off or termination; (5) not be subject to termination pursuant to Iowa Code Section 279.15 or Section 279.27, whether such termination occurs before or after the acceptance of his or her application and (6) otherwise meet the requirements of this Plan. The special termination benefit allows an eligible employee to (1) if at the time of retirement has health insurance, to use the value of their accumulated sick leave benefit and annual special leave to pay for health insurance until they reach the age of 65 and opt for Medicare benefits, with any remaining funds at that time paid out in a single lump sum payment, or (2) if at the time of retirement has no health insurance, to pay out the value of their accumulated sick leave benefit and annual special leave over five equal annual payments into a tax sheltered annuity of their choice. As of June 30, 2006, the District has \$2,267,241 accrued in the Management Fund, \$50,440 accrued in the General Fund relating to employees over age 65 as they are considered due, and an additional \$10,406,034 recorded in the government-wide financial statements. The current year cost to the District was \$1,916,845 which consisted of 81 participants in the plan. A summary of the changes in early retirement liability for the year ended June 30, 2006 is on the following page:

Des Moines Independent Community School District

Notes to Basic Financial Statements

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**Note 7. Special Termination Benefits (Continued)**

Balance, June 30, 2005	\$ 11,118,627
Additions	3,521,933
Reductions	<u>(1,916,845)</u>
Balance, June 30, 2006	<u>\$ 12,723,715</u>

**Note 8. Commitments and Contingencies**

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

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the District's counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District. A liability of \$291,712 regarding a special termination benefits lawsuit is recorded as of June 30, 2006 of which \$125,572 is accrued for in the Management Fund and another \$166,140 accrued as long-term within the special termination amount in the government-wide statements discussed in Note 7.

As of June 30, 2006, the District was involved in construction projects with an estimated cost to complete the construction projects of \$56,626,092.

**Note 9. Risk Management**

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

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

	Year Ended June 30,	
	2006	2005
Unpaid claims, beginning of year	\$ (1,422,978)	\$ 2,752,349
Current year claims and changes in estimates	15,723,054	13,384,105
Claim payments	<u>(14,960,608)</u>	<u>(17,559,432)</u>
Unpaid claims, end of year	<u>\$ (660,532)</u>	<u>\$ (1,422,978)</u>

## Des Moines Independent Community School District

### Notes to Basic Financial Statements

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#### Note 9. Risk Management (Continued)

As of June 30, 2006, the unpaid claims receivable of \$660,532 includes \$3,022,330 of reinsurance reimbursement receivable that the District expects to receive as it has exceeded its individual stop-loss amount and its aggregate stop-loss amount. A total of \$3,022,330 reinsurance revenue to be received is recorded with claims expense of \$15,723,054.

The District self insures its workers' compensation exposures. Claims which are due and payable are recorded in the Management Fund, a nonmajor governmental fund. It is estimated that there are no claims that have been incurred but not reported. Losses on workers' compensation claims are limited through the purchase of stop-loss insurance to \$500,000 per individual. Liabilities are reported in the financial statements in accounts payable. Changes in the balances of claims liabilities during the past two fiscal years are as follows:

	Year Ended June 30,	
	2006	2005
Unpaid claims, beginning of year	\$ 204,568	\$ 210,076
Current year claims and changes in estimates	1,839,039	1,315,909
Claim payments	(1,949,886)	(1,321,417)
Unpaid claims, end of year	<u>\$ 93,721</u>	<u>\$ 204,568</u>

The District's general liability and automobile liability policies are written under a retrospective rating plan where final premium costs are within a specified minimum and maximum premium. For the policy year ended June 30, 2006, various liability claims remain unsettled; therefore, the District has accrued a liability for the maximum potential additional premium that could be payable under the retrospective rating plan of \$674,952. The liability is recorded in the District-wide financial statements.

The District continues to carry commercial insurance for all other risks of loss. The District has a \$100,000 deductible on property insurance and a \$500 deductible on auto insurance for automobiles specifically used for driver's education. The District also carries commercial insurance for one of their medical programs included in the Risk Management Fund. There is no risk of loss to the District for this program. During the three-year period ended June 30, 2006, the District had no settlements in excess of its insurance coverage.

#### Note 10. Retirement Systems

Iowa Public Employees' Retirement System:

The District contributes to the Iowa Public Employees' Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the state of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. All District employees, other than teachers and administrators, participate in IPERS. Teachers and administrators may choose to participate in the Des Moines Teachers' Retirement System in lieu of IPERS.

IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117. Details of the plan are provided on a system-wide basis.

## Des Moines Independent Community School District

### Notes to Basic Financial Statements

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#### Note 10. Retirement Systems (Continued)

Plan members are required to contribute 3.70 percent of their annual salary and the District is required to contribute 5.75 percent of annual covered salaries. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$8,485,820, \$7,988,149 and \$7,840,789, respectively, equal to the required contributions for each year.

#### Des Moines Teachers' Retirement System:

The Des Moines Teachers' Retirement System is a single employer defined contribution plan that provides pension benefits for all eligible District employees. The Des Moines Teachers' Retirement System was established as of July 1, 1953, in accordance with Sections 294.8 through 294.10 of the Code of Iowa. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees who possess professional qualifications as a requirement for their position of employment, such as a teacher's certificate to be a teacher, are permitted to participate from the date of their employment. There are 1,640 active and retired participants as of June 30, 2006. The plan requires the employees to contribute a varying percentage of their base pay, from 4.31 percent to 7.14 percent, with the percentage actuarially determined based on the age of the employee upon entrance into the plan. The District's contribution is to be 112 percent of the amount contributed by the employee. District contributions for each employee vest after four years of service at 100 percent. At age 55, District contributions are vested at 112 percent. The total payroll for employees covered by the System for the year ended June 30, 2006 was \$38,081,300 and the total District payroll was \$190,471,807. The employees' contributions during the year ended June 30, 2006 were \$1,769,480 (4.6 percent of the total covered payroll). The District's General Fund made contributions of \$1,977,727 (5.2 percent of the total covered payroll). The Des Moines Teachers' Retirement System does not invest in any obligations of the City of Des Moines or its political subdivisions. Plan net assets were \$211,989,501 as of June 30, 2006. Fair values of investments that do not have an established market are reported at estimated fair values.

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

The District adopted GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, issued November 2003. This Statement requires governments to report the effects of capital asset impairment in their financial statements when it occurs and requires all governments to account for insurance recoveries in the same manner. This Statement had no effect on the District in the current year.

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, an amendment of GASB Statement No. 34, issued December 2004. The purpose of Statement No. 46 is to help governments determine when net assets have been restricted to a particular use by the passage of enabling legislation and to specify how those net assets should be reported in financial statements when there are changes in the circumstances surrounding such legislation. The effect of adopting this Statement was to reclassify \$17,088,943 previously reported as unrestricted to restricted net assets, as of June 30, 2005.

## Des Moines Independent Community School District

### Notes to Basic Financial Statements

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

GASB Statement No. 47, *Accounting for Termination Benefits*, issued June 2005. This Statement established 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 is properly recording and reporting termination benefits in accordance with their early retirement plan and this Statement. This Statement modified the disclosure of the termination benefit of the District in the current year.

The GASB has also issued several statements not yet implemented by the District. The District's management has not yet determined the effect these Statements will have on the District's financial statements. However, the District plans to implement all standards by the required dates. The statements which might impact the District are as follows:

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

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, 2008. 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. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, issued September 2006, is effective for the District with its year ending June 30, 2008. This Statement establishes accounting and financial reporting standards for transactions in which a government receives or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. It also provides disclosure requirements for a government that pledges or commits future cash flows from a specific revenue source. In addition, this Statement establishes accounting and financial reporting standards for intra-entity transfers of assets and future revenues.

#### **Note 12. Subsequent Event**

On July 6, 2006, the District issued \$20,700,000 of School Infrastructure Local Option Sales and Services Tax Revenue Bonds, with an interest rate of 3.850 percent, to pay costs of school infrastructure improvement projects. The bonds are payable on December 1 and June 1 of each year in installments ranging from \$800,000 to \$7,800,000 and mature on June 1, 2010.

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Des Moines Independent Community School District

Required Supplementary Information - Budgetary Comparison Schedule -  
 All Governmental Funds, Enterprise Funds and Private Purpose Trust Funds  
 For the Year Ended June 30, 2006

	Actual			
	Governmental Fund Types	Enterprise Funds	Private Purpose Trust Funds	Total
<b>Revenues:</b>				
Local sources	\$ 146,054,311	\$ 8,669,010	\$ 21,124	\$ 154,744,445
Intermediate sources	7,427,928	-	-	7,427,928
State sources	165,966,827	143,934	-	166,110,761
Federal sources	28,517,075	8,405,722	-	36,922,797
<b>Total revenues</b>	<b>347,966,141</b>	<b>17,218,666</b>	<b>21,124</b>	<b>365,205,931</b>
<b>Expenditures/Expenses:</b>				
Instructional	199,686,716	-	-	199,686,716
Support services	91,650,459	-	-	91,650,459
Noninstructional	1,158,221	12,626,373	18,124	13,802,718
Other	43,886,009	4,800,477	-	48,686,486
<b>Total expenditures/ expenses</b>	<b>336,381,405</b>	<b>17,426,850</b>	<b>18,124</b>	<b>353,826,379</b>
<b>Excess of revenues over expenditures/expenses</b>	<b>11,584,736</b>	<b>(208,184)</b>	<b>3,000</b>	<b>11,379,552</b>
<b>Other financing sources (uses):</b>				
Proceeds from sale of capital assets	462,814	-	-	462,814
Transfers in	823,295	-	-	823,295
Transfers (out)	(823,295)	-	-	(823,295)
<b>Net change in fund balances</b>	<b>\$ 12,047,550</b>	<b>\$ (208,184)</b>	<b>\$ 3,000</b>	<b>\$ 11,842,366</b>

See Note to Required Supplementary Information.

Budget		
Original	Final	Final Budget to Actual Variance Positive (Negative)
\$ 152,720,530	\$ 151,941,219	\$ 2,803,226
6,864,000	7,253,881	174,047
165,965,191	166,519,171	(408,410)
31,590,000	36,093,998	828,799
357,139,721	361,808,269	3,397,662
201,283,051	204,783,098	5,096,382
90,017,995	92,167,691	517,232
19,934,679	20,255,279	6,452,561
54,827,861	54,026,066	5,339,580
366,063,586	371,232,134	17,405,755
(8,923,865)	(9,423,865)	20,803,417
500,000	500,000	(37,186)
705,268	705,268	118,027
(705,268)	(705,268)	(118,027)
\$ (8,423,865)	\$ (8,923,865)	\$ 20,766,231

## Des Moines Independent Community School District

### Note to Required Supplementary Information Year Ended June 30, 2006

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#### Note 1. Basis of Presentation

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

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

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

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

During the year, a budget amendment increased budgeted revenues by \$4,668,548 and expenditures by \$5,168,548. The budget amendment was primarily due to an increase in federal funds and state teacher compensation funding received during the fiscal year, but not known at the time the original budget was adopted.

The District is required by the Code of Iowa to budget for its share of media, educational services, and special education support provided through the local area education agency. The District's actual amount for this purpose totaled \$9,855,798 for the year ended June 30, 2006.

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Des Moines Independent Community School District

Combining Balance Sheet  
 All Nonmajor Governmental Funds  
 June 30, 2006

	Special Revenue		
	Student Activity	Management	Physical Plant and Equipment Levy
<b>Assets</b>			
Cash and investments	\$ 2,174,732	\$ 4,797,354	\$ 2,971,840
Restricted cash	-	-	269,000
Property taxes receivable - current year	-	147,638	94,719
Property taxes receivable - succeeding year	-	8,678,034	5,951,599
Other receivables	7,488	-	92,807
Prepaid items	25,989	-	-
<b>Total assets</b>	<b>\$ 2,208,209</b>	<b>\$ 13,623,026</b>	<b>\$ 9,379,965</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 61,259	\$ 181,401	\$ 663,562
Accrued payroll	4,479	-	-
Special termination benefits	-	2,267,241	-
Other current liabilities	-	-	33,326
Due to other governments	1,770	18,416	2,175
Deferred revenue	9,140	8,678,034	5,951,599
<b>Total liabilities</b>	<b>76,648</b>	<b>11,145,092</b>	<b>6,650,662</b>
<b>Fund balances:</b>			
Reserved for:			
Debt service	-	-	269,000
Prepaid items	25,989	-	-
Permanent trusts	-	-	-
Unreserved, undesignated reported, special revenue funds	2,105,572	2,477,934	2,460,303
<b>Total fund balances</b>	<b>2,131,561</b>	<b>2,477,934</b>	<b>2,729,303</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,208,209</b>	<b>\$ 13,623,026</b>	<b>\$ 9,379,965</b>

Public Education and Recreation			Total Nonmajor Governmental Funds
Levy	DMPS	Permanent	
\$ 226,606	\$ 2,484,654	\$ 10,454	\$ 12,665,640
-	-	-	269,000
12,819	-	-	255,176
753,476	-	-	15,383,109
-	-	-	100,295
-	-	-	25,989
<u>\$ 992,901</u>	<u>\$ 2,484,654</u>	<u>\$ 10,454</u>	<u>\$ 28,699,209</u>
\$ 4,107	\$ 4,855	\$ -	\$ 915,184
12,576	-	-	17,055
-	-	-	2,267,241
-	-	-	33,326
-	5,456	-	27,817
753,476	-	-	15,392,249
<u>770,159</u>	<u>10,311</u>	<u>-</u>	<u>18,652,872</u>
-	-	-	269,000
-	-	-	25,989
-	-	10,454	10,454
222,742	2,474,343	-	9,740,894
<u>222,742</u>	<u>2,474,343</u>	<u>10,454</u>	<u>10,046,337</u>
<u>\$ 992,901</u>	<u>\$ 2,484,654</u>	<u>\$ 10,454</u>	<u>\$ 28,699,209</u>

Des Moines Independent Community School District

Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
 All Nonmajor Governmental Funds  
 Year Ended June 30, 2006

	Special Revenue		
	Student Activity	Management	Physical Plant and Equipment Levy
Revenues:			
Property taxes	\$ -	\$ 8,306,453	\$ 5,611,478
Other local sources	-	-	171,465
Investment earnings	83,733	-	-
State sources	-	4,842	3,001
Federal sources	-	-	300,000
Student activities	2,896,127	-	-
<b>Total revenues</b>	<b>2,979,860</b>	<b>8,311,295</b>	<b>6,085,944</b>
Expenditures:			
Current:			
Instructional	2,851,120	4,974,535	93,827
Instructional support services	-	-	9,107
General administration	-	768,062	-
Building administration	-	572,648	-
Business and central administration	-	-	466,025
Plant operation and maintenance	-	1,029,083	467,419
Student transportation	-	1,010,204	-
Noninstructional	-	268,641	-
Capital outlay	-	-	3,275,720
Debt service:			
Principal retirement	-	-	-
Interest	-	-	-
<b>Total expenditures</b>	<b>2,851,120</b>	<b>8,623,173</b>	<b>4,312,098</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>128,740</b>	<b>(311,878)</b>	<b>1,773,846</b>
Other financing sources (uses):			
Transfers in	-	-	252,528
Transfers out	-	-	(570,767)
Proceeds received on sale of capital assets	-	-	456,544
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>138,305</b>
<b>Net changes in fund balances</b>	<b>128,740</b>	<b>(311,878)</b>	<b>1,912,151</b>
Fund balances, beginning of year	2,002,821	2,789,812	817,152
Fund balances, end of year	<b>\$ 2,131,561</b>	<b>\$ 2,477,934</b>	<b>\$ 2,729,303</b>

				Total
Public				Nonmajor
Education and				Governmental
Recreation				Funds
Levy	DMPS	Debt Service	Permanent	
\$ 721,094	\$ -	\$ -	\$ -	\$ 14,639,025
412,369	176,028	-	-	759,862
-	119,954	-	378	204,065
425	-	-	-	8,268
-	-	-	-	300,000
99,606	-	-	-	2,995,733
<u>1,233,494</u>	<u>295,982</u>	<u>-</u>	<u>378</u>	<u>18,906,953</u>
632,081	96,067	-	-	8,647,630
-	44,136	-	-	53,243
-	-	-	-	768,062
-	-	-	-	572,648
-	-	-	-	466,025
-	-	-	-	1,496,502
-	-	-	-	1,010,204
395,405	-	-	-	664,046
15,981	-	-	-	3,291,701
-	-	-	-	-
-	-	470,000	-	470,000
-	-	100,767	-	100,767
<u>1,043,467</u>	<u>140,203</u>	<u>570,767</u>	<u>-</u>	<u>17,540,828</u>
190,027	155,779	(570,767)	378	1,366,125
-	-	570,767	-	823,295
-	-	(252,528)	-	(823,295)
-	-	-	-	456,544
-	-	318,239	-	456,544
190,027	155,779	(252,528)	378	1,822,669
32,715	2,318,564	252,528	10,076	8,223,668
<u>\$ 222,742</u>	<u>\$ 2,474,343</u>	<u>\$ -</u>	<u>\$ 10,454</u>	<u>\$ 10,046,337</u>

Des Moines Independent Community School District

Combining Statement of Net Assets  
All Nonmajor Enterprise Funds  
June 30, 2006

	School Nutrition	Child Care	Home Remodeling
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 432,101	\$ 290,533	\$ 36,011
Other receivables, net of allowances for uncollectibles of \$43,632	61,203	83,530	-
Due from other governments	145,184	-	-
Inventories	124,631	-	-
Assets held for sale	-	-	63,492
<b>Total current assets</b>	<b>763,119</b>	<b>374,063</b>	<b>99,503</b>
Noncurrent assets, nondepreciable assets	-	-	95,707
Noncurrent assets, depreciable assets, net	2,295,780	-	-
<b>Total assets</b>	<b>\$ 3,058,899</b>	<b>\$ 374,063</b>	<b>\$ 195,210</b>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	\$ 72,175	\$ 7,309	\$ 4,348
Accrued payroll	115,086	154,082	-
Other current liabilities	77,363	-	-
Due to other governments	-	613	-
Unearned revenue	-	18,409	-
Compensated absences	101,253	15,399	-
<b>Total current liabilities</b>	<b>365,877</b>	<b>195,812</b>	<b>4,348</b>
Noncurrent liabilities, compensated absences	20,375	15,552	-
<b>Total liabilities</b>	<b>386,252</b>	<b>211,364</b>	<b>4,348</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	2,295,780	-	95,707
Unrestricted	376,867	162,699	95,155
<b>Total net assets</b>	<b>2,672,647</b>	<b>162,699</b>	<b>190,862</b>
<b>Total liabilities and net assets</b>	<b>\$ 3,058,899</b>	<b>\$ 374,063</b>	<b>\$ 195,210</b>

Automotive	Wellness Center	Total
\$ 38,285	\$ 8,001	\$ 804,931
-	-	144,733
-	-	145,184
-	-	124,631
-	-	63,492
38,285	8,001	1,282,971
-	-	95,707
-	-	2,295,780
\$ 38,285	\$ 8,001	\$ 3,674,458
\$ 5,165	\$ -	\$ 88,997
-	-	269,168
-	-	77,363
-	-	613
-	-	18,409
-	-	116,652
5,165	-	571,202
-	-	35,927
5,165	-	607,129
-	-	2,391,487
33,120	8,001	675,842
33,120	8,001	3,067,329
\$ 38,285	\$ 8,001	\$ 3,674,458

Des Moines Independent Community School District

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets (Deficit)

All Nonmajor Enterprise Funds

Year Ended June 30, 2006

	School Nutrition	Child Care	Home Remodeling
Operating revenues:			
Student activities	\$ -	\$ -	\$ -
Charges for services:			
Sale of food	3,931,838	-	-
Child care	-	4,510,037	-
Miscellaneous	1,659	6,740	-
<b>Total operating revenues</b>	<b>3,933,497</b>	<b>4,516,777</b>	<b>-</b>
Operating expenses:			
Student services	12,581,774	-	-
School nutrition, depreciation	278,082	-	-
Community services	-	4,461,347	1,977
<b>Total operating expenses</b>	<b>12,859,856</b>	<b>4,461,347</b>	<b>1,977</b>
<b>Operating income (loss)</b>	<b>(8,926,359)</b>	<b>55,430</b>	<b>(1,977)</b>
Nonoperating revenues (expenses):			
Other local sources	87,930	-	-
State sources	143,934	-	-
Federal sources	8,405,722	-	-
Loss on disposal of capital assets	(5,814)	-	-
<b>Total nonoperating revenues (expenses)</b>	<b>8,631,772</b>	<b>-</b>	<b>-</b>
<b>Changes in net assets (deficit)</b>	<b>(294,587)</b>	<b>55,430</b>	<b>(1,977)</b>
Total net assets (deficit), beginning of year	2,967,234	107,269	192,839
Total net assets, end of year	<b>\$ 2,672,647</b>	<b>\$ 162,699</b>	<b>\$ 190,862</b>

Automotive	Wellness Center	Total
\$ 62,961	\$ -	\$ 62,961
-	-	3,931,838
-	-	4,510,037
-	66,341	74,740
62,961	66,341	8,579,576
44,599	-	12,626,373
-	-	278,082
-	53,257	4,516,581
44,599	53,257	17,421,036
18,362	13,084	(8,841,460)
1,504	-	89,434
-	-	143,934
-	-	8,405,722
-	-	(5,814)
1,504	-	8,633,276
19,866	13,084	(208,184)
13,254	(5,083)	3,275,513
\$ 33,120	\$ 8,001	\$ 3,067,329

Des Moines Independent Community School District

Combining Statement of Cash Flows

All Nonmajor Enterprise Funds

Year Ended June 30, 2006

	School Nutrition	Child Care	Home Remodeling
Cash flows from operating activities:			
Cash received from user charges	\$ 4,015,483	\$ 4,508,480	\$ -
Cash payments to employees for services	(6,132,641)	(4,060,089)	-
Cash payments to suppliers for goods and services	(5,687,422)	(461,976)	(29,657)
<b>Net cash provided by (used in) operating activities</b>	<b>(7,804,580)</b>	<b>(13,585)</b>	<b>(29,657)</b>
Cash flows from noncapital financing activities:			
Payments to other funds	-	-	-
Payments from other funds	-	-	-
Nonoperating grants and donations received	8,126,009	-	-
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>8,126,009</b>	<b>-</b>	<b>-</b>
Cash flows from capital and related financing activities, acquisition of capital assets	(247,755)	-	(95,707)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>73,674</b>	<b>(13,585)</b>	<b>(125,364)</b>
Cash and cash equivalents, beginning of year	358,427	304,118	161,375
Cash and cash equivalents, end of year	<u>\$ 432,101</u>	<u>\$ 290,533</u>	<u>\$ 36,011</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ (8,926,359)	\$ 55,430	\$ (1,977)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	278,082	-	-
Commodities used	686,072	-	-
Changes in assets and liabilities:			
Receivables	28,826	(26,706)	-
Inventories	61,481	-	-
Prepaid expense	350	-	-
Assets held for sale	-	-	(32,010)
Accounts payable and due to other governments	19,166	(19,498)	4,330
Unearned revenue	-	18,409	-
Accrued liabilities and compensated absences	(5,358)	(41,220)	-
Other current liabilities	53,160	-	-
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (7,804,580)</b>	<b>\$ (13,585)</b>	<b>\$ (29,657)</b>
Noncash items:			
Noncapital financing activities, commodities received from US Department of Agriculture	\$ 686,072	\$ -	\$ -
Capital and related financing activities, transfer of capital assets to assets held for sale	-	-	31,482

Automotive	Wellness Center	Total
\$ 62,961	\$ 66,341	\$ 8,653,265
-	-	(10,192,730)
(47,042)	(53,257)	(6,279,354)
15,919	13,084	(7,818,819)
-	(5,083)	(5,083)
5,083	-	5,083
1,504	-	8,127,513
6,587	(5,083)	8,127,513
-	-	(343,462)
22,506	8,001	(34,768)
15,779	-	839,699
\$ 38,285	\$ 8,001	\$ 804,931

\$ 18,362	\$ 13,084	\$ (8,841,460)
-	-	278,082
-	-	686,072
-	-	2,120
-	-	61,481
-	-	350
-	-	(32,010)
(2,443)	-	1,555
-	-	18,409
-	-	(46,578)
-	-	53,160
\$ 15,919	\$ 13,084	\$ (7,818,819)

\$ -	\$ -	\$ 686,072
-	-	31,482

Des Moines Independent Community School District

Combining Statement of Net Assets (Deficit)

All Internal Service Funds

June 30, 2006

	Self-Insurance	Risk Management	Collage	Print Shop	Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 2,619,372	\$ -	\$ 150	\$ 79,528	\$ 2,699,050
Other receivables	660,532	-	-	-	660,532
Due from other funds	178,894	-	-	3,782	182,676
Inventories	-	-	-	42,142	42,142
<b>Total assets</b>	<b>3,458,798</b>	<b>-</b>	<b>150</b>	<b>125,452</b>	<b>3,584,400</b>
Noncurrent assets, depreciable assets, net	-	-	-	115,066	115,066
<b>Total assets</b>	<b>\$ 3,458,798</b>	<b>\$ -</b>	<b>\$ 150</b>	<b>\$ 240,518</b>	<b>\$ 3,699,466</b>
<b>Liabilities</b>					
Current liabilities:					
Accounts payable	\$ 119,355	\$ 21,028	\$ 33	\$ 2,176	\$ 142,592
Due to other funds	-	178,894	3,782	-	182,676
Unearned revenue	20,845	33,660	-	-	54,505
Accrued compensated absences	-	-	1,575	6,788	8,363
<b>Total current liabilities</b>	<b>140,200</b>	<b>233,582</b>	<b>5,390</b>	<b>8,964</b>	<b>388,136</b>
Noncurrent liabilities, accrued compensated absences	-	-	3,958	7,050	11,008
<b>Total liabilities</b>	<b>140,200</b>	<b>233,582</b>	<b>9,348</b>	<b>16,014</b>	<b>399,144</b>
<b>Net Assets (Deficit)</b>					
Invested in capital assets, net of related debt	-	-	-	115,066	115,066
Unrestricted	3,318,598	(233,582)	(9,198)	109,438	3,185,256
<b>Total net assets (deficit)</b>	<b>3,318,598</b>	<b>(233,582)</b>	<b>(9,198)</b>	<b>224,504</b>	<b>3,300,322</b>
<b>Total liabilities and net assets</b>	<b>\$ 3,458,798</b>	<b>\$ -</b>	<b>\$ 150</b>	<b>\$ 240,518</b>	<b>\$ 3,699,466</b>

Des Moines Independent Community School District

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets (Deficit)

All Internal Service Funds

Year Ended June 30, 2006

	Self-Insurance	Risk Management	Collage	Print Shop	Total
Operating revenues:					
Charges for services:					
Employee benefits	\$ 16,179,593	\$ 21,900,853	\$ -	\$ -	\$ 38,080,446
Miscellaneous	-	-	59,542	280,246	339,788
<b>Total operating revenues</b>	<b>16,179,593</b>	<b>21,900,853</b>	<b>59,542</b>	<b>280,246</b>	<b>38,420,234</b>
Operating expenses:					
Employee benefits	15,723,054	22,191,137	-	-	37,914,191
Depreciation	-	-	-	10,068	10,068
Miscellaneous	-	-	58,117	237,116	295,233
<b>Total operating expenses</b>	<b>15,723,054</b>	<b>22,191,137</b>	<b>58,117</b>	<b>247,184</b>	<b>38,219,492</b>
<b>Changes in net assets</b>	<b>456,539</b>	<b>(290,284)</b>	<b>1,425</b>	<b>33,062</b>	<b>200,742</b>
Total net assets (deficit), beginning of year	2,862,059	56,702	(10,623)	191,442	3,099,580
Total net assets (deficit), end of year	<b>\$ 3,318,598</b>	<b>\$ (233,582)</b>	<b>\$ (9,198)</b>	<b>\$ 224,504</b>	<b>\$ 3,300,322</b>

Des Moines Independent Community School District

Combining Statement of Cash Flows  
All Internal Service Funds  
Year Ended June 30, 2006

	Risk				Total
	Self-Insurance	Management	Collage	Print Shop	
Cash flows from operating activities:					
Cash received from user charges	\$ 16,952,150	\$ 21,921,785	\$ 59,542	\$ 280,246	\$ 39,213,723
Cash payments to employees for services	-	-	(51,615)	(157,465)	(209,080)
Cash payments to suppliers for goods and services	(15,723,836)	(22,079,569)	(5,536)	(71,674)	(37,880,615)
<b>Net cash provided by (used in) operating activities</b>	<b>1,228,314</b>	<b>(157,784)</b>	<b>2,391</b>	<b>51,107</b>	<b>1,124,028</b>
Cash flows from noncapital financing activities:					
Proceeds from other funds	-	157,784	-	2,390	160,174
Payments to other funds	(157,784)	-	(2,391)	-	(160,175)
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>(157,784)</b>	<b>157,784</b>	<b>(2,391)</b>	<b>2,390</b>	<b>(1)</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,070,530</b>	<b>-</b>	<b>-</b>	<b>53,497</b>	<b>1,124,027</b>
Cash and cash equivalents, beginning of year	1,548,842	-	150	26,031	1,575,023
Cash and cash equivalents, end of year	<u>\$ 2,619,372</u>	<u>\$ -</u>	<u>\$ 150</u>	<u>\$ 79,528</u>	<u>\$ 2,699,050</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ 456,539	\$ (290,284)	\$ 1,425	\$ 33,062	\$ 200,742
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	-	-	-	10,068	10,068
Changes in assets and liabilities:					
Receivables	762,446	1,157	-	-	763,603
Inventories	-	-	-	4,533	4,533
Prepaid expenses	-	90,540	-	-	90,540
Accounts payable	(782)	21,028	-	1,874	22,120
Unearned revenue	10,111	19,775	-	-	29,886
Accrued liabilities	-	-	966	1,570	2,536
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 1,228,314</b>	<b>\$ (157,784)</b>	<b>\$ 2,391</b>	<b>\$ 51,107</b>	<b>\$ 1,124,028</b>

Des Moines Independent Community School District

Combining Statement of Fiduciary Net Assets

All Private Purpose Trust Funds

June 30, 2006

	Hoyt/Dahl	Gabriel	Morrison	Employee Dependent Scholarship	Total
<b>Assets</b>					
Cash and cash equivalents	\$ 304,437	\$ 27,304	\$ 134,033	\$ 16,018	\$ 481,792
Investments:					
U.S. government securities	-	33,896	206,319	-	240,215
Corporate equities	-	-	2,023	-	2,023
Interest receivable	-	50	292	-	342
Other receivables	-	-	1,500	-	1,500
<b>Total assets</b>	<b>\$ 304,437</b>	<b>\$ 61,250</b>	<b>\$ 344,167</b>	<b>\$ 16,018</b>	<b>\$ 725,872</b>
<b>Net Assets, held in trust for scholarships</b>	<b>\$ 304,437</b>	<b>\$ 61,250</b>	<b>\$ 344,167</b>	<b>\$ 16,018</b>	<b>\$ 725,872</b>

Des Moines Independent Community School District

Combining Statement of Changes in Fiduciary Net Assets

All Private Purpose Trust Funds

Year Ended June 30, 2006

	Hoyt/Dahl	Gabriel	Morrison	Employee Dependent Scholarship	Total
<b>Additions:</b>					
Contributions - private source	\$ -	\$ -	\$ 160	\$ -	\$ 160
Investment earnings	10,667	1,334	8,404	559	20,964
<b>Total additions</b>	<b>10,667</b>	<b>1,334</b>	<b>8,564</b>	<b>559</b>	<b>21,124</b>
<b>Deductions:</b>					
Scholarship awarded	-	-	16,124	1,700	17,824
Other	300	-	-	-	300
<b>Total deductions</b>	<b>300</b>	<b>-</b>	<b>16,124</b>	<b>1,700</b>	<b>18,124</b>
<b>Changes in net assets</b>	<b>10,367</b>	<b>1,334</b>	<b>(7,560)</b>	<b>(1,141)</b>	<b>3,000</b>
Total net assets, beginning of year	294,070	59,916	351,727	17,159	722,872
Total net assets, end of year	<u>\$ 304,437</u>	<u>\$ 61,250</u>	<u>\$ 344,167</u>	<u>\$ 16,018</u>	<u>\$ 725,872</u>

Des Moines Independent Community School District

Combining Statement of Assets and Liabilities

All Agency Funds

June 30, 2006

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	Faculty and Staff	Urban Education Network	Total
Assets, cash and cash equivalents	\$ 157,044	\$ 60,595	\$ 217,639
<b>Liabilities</b>			
Accounts payable	\$ 4,632	\$ -	\$ 4,632
Due to other governmental units	152,412	60,595	213,007
<b>Total liabilities</b>	<b>\$ 157,044</b>	<b>\$ 60,595</b>	<b>\$ 217,639</b>

Des Moines Independent Community School District

Combining Statement of Changes in Assets and Liabilities

Agency Funds

Year Ended June 30, 2006

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
<b>Faculty and Staff</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 188,804	\$ 168,911	\$ 200,671	\$ 157,044
<b>Liabilities</b>				
Accounts payable	\$ 5,723	\$ -	\$ 1,091	\$ 4,632
Due to other governmental units	183,081	-	30,669	152,412
<b>Total liabilities</b>	<b>\$ 188,804</b>	<b>\$ -</b>	<b>\$ 31,760</b>	<b>\$ 157,044</b>
<b>Urban Education Network</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 50,334	\$ 65,116	\$ 54,855	\$ 60,595
<b>Liabilities</b>				
Accounts payable	\$ 317	\$ -	\$ 317	\$ -
Due to other governmental units	50,017	10,578	-	60,595
<b>Total liabilities</b>	<b>\$ 50,334</b>	<b>\$ 10,578</b>	<b>\$ 317</b>	<b>\$ 60,595</b>
<b>Total</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 239,138	\$ 234,027	\$ 255,526	\$ 217,639
<b>Liabilities</b>				
Accounts payable	\$ 6,040	\$ -	\$ 1,408	\$ 4,632
Due to other governmental units	233,098	10,578	30,669	213,007
<b>Total liabilities</b>	<b>\$ 239,138</b>	<b>\$ 10,578</b>	<b>\$ 32,077</b>	<b>\$ 217,639</b>

Des Moines Independent Community School District

Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2006

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<b>U.S. Department of Agriculture:</b>			
(Passed through Iowa Department of Education):			
School Breakfast Program	10.553	42-6004525	\$ 1,453,846
National School Lunch Program	10.555	42-6004525	5,746,740
Child and Adult Care Food Program	10.558	42-6004525	250,302
Summer Food Service Program for Children	10.559	42-6004525	268,763
			<u>7,719,651</u>
(Passed through Iowa Department of Public Health):			
State Administrative Matching Grants for Food Stamp Program	10.561	42-6004523	64,685
<b>Total U.S. Department of Agriculture</b>			<u>7,784,336</u>
<b>U.S. Department of Housing and Urban Development:</b>			
(Passed through City of Des Moines),			
Community Development Block Grant (CDBG)	14.218	42-6004514	56,595
<b>U.S. Department of Justice:</b>			
(Passed through City of Des Moines),			
Secure Our Schools	16.710	42-6004514	25,362
<b>U.S. Department of Education:</b>			
(Direct):			
Mentoring Programs Grant	84.184B	42-6001433	187,552
Emergency Response/Crisis Management	84.184E	42-6001433	288,158
Project Raices	84.195B	42-6001433	217,409
Elementary and Secondary Counseling Demonstration Grant	84.215E	42-6001433	430,375
Smoother Sailing	84.215K	42-6001433	75,031
FIE Earmark-Full Service Community School/Urban Dreams	84.215K	42-6001433	213,711
FIE Earmark-Early Childhood Programs	84.215K	42-6001433	173,296
Smaller Learning Communities - Implementation	84.215L	42-6001433	655,333
Project Roots	84.290U	42-6001433	414,458
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)	84.334	42-6001433	73,075
Advanced Placement Incentive Program	84.330C	42-6001433	469,107
Des Moines Partnership for Teacher Quality	84.336C	42-6001433	131,473
Pathways to Early Learning and Literacy (PELL)	84.359B	42-6001433	943,496
			<u>4,272,474</u>
(Passed Through Iowa State University),			
Carol M. White Physical Education Program Grant	84.215F	42-6004224	52,075
(Passed Through Drake University),			
Science Professional Development Program	84.366	42-0680460	48,330

(Continued)

Des Moines Independent Community School District

Schedule of Expenditures of Federal Awards (Continued)  
 Year Ended June 30, 2006

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
(Passed Through Iowa Department of Education):			
Title I Grants to Local Educational Agencies	84.010A	42-6004525	7,417,097
Title I Accountability Grants	84.348	42-6004525	898
Instructional Coaching Institute	84.027	42-6004525	525
Employment Preparation Study	84.027	42-6004525	3,600
Vocational Education Basic Grants to States	84.048	42-6004525	561,417
Education, Consolidation and Improvement Act of 1981, Title V Safe & Drug Free Schools & Communities (Expelled/Suspended Students)	84.151	42-6004525	132,246
84.184	42-6004525	115,062	
Safe and Drug Free Schools and Communities	84.186	42-6004525	236,738
Education for Homeless Children & Youth	84.196	42-6004525	21,225
ESL for Rapid Growth	84.125	42-6004525	4,500
Iowa Demonstration Construction Grants	84.215	42-6004525	1,300,000
Fund for the Improvement of Education (Title III FIE ESL Training)	84.215	42-6004525	16,375
Iowa Star Schools Project	84.215K	42-6004525	28,198
Education Technology State Grant (Title II Technology - E2T2)	84.318	42-6004525	194,752
Education Technology State Grant (Technology Literacy Challenge Grant)	84.318	42-6004525	42,485
Advanced Placement Program	84.330	42-6004525	468
Comprehensive School Reform Demonstration	84.332	42-6004525	218,367
English Language Acquisition Grants (Title III ELL/LEP)	84.365	42-6004525	408,295
English Language Acquisition Grants (Title III Immigrant Children)	84.365	42-6004525	131,024
Title III ELA	84.365	42-6004525	1,040
Improving Teacher Quality State Grant (Title II)	84.367	42-6004525	1,938,171
Reading First	84.357	42-6004525	646,847
Math-Science Partnership Program	84.366B	42-6004525	197,799
Hurricane Relief Funding Program	84.938	42-6004525	347,250
Teacher Quality Enhancement - MS Summer Institute	84.336A	42-6004525	39,287
Grants for State Assessments & Related Activities	84.369	42-6004525	187,332
			<u>14,190,998</u>
(Passed through Heartland Area Education Agency 11):			
Special Education Grants to States (Individuals with Disabilities Education Act)	84.027	42-1028173	1,941,960
Special Education Grants to States (Handicapped Preschool Program Vocational Assessment)	84.027	42-1028173	5,025,500
Parent Education Project	84.029	42-1028173	30,159
Special Education Preschool Grants (Least Restrictive Environment Coordinator)	84.173	42-1028173	215,958
Special Education Grants to States (Grants for Infants and Families with Disabilities)	84.181	42-1028173	167,932
			<u>7,381,509</u>
<b>Total U.S. Department of Education</b>			<u>25,945,386</u>

(Continued)

Des Moines Independent Community School District

Schedule of Expenditures of Federal Awards (Continued)  
Year Ended June 30, 2006

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<b>U.S. Department of Health and Human Services,</b> (Direct), Early Learning Opportunities	93.577	42-6001433	<u>475,955</u>
(Passed through Iowa Department of Education):			
Refugee Assistance Program	93.576	42-6004525	44,707
Youth Risk Behavioral Study	93.938	42-6004525	<u>525</u>
			<u>45,232</u>
(Passed through Iowa Department of Human Services),			
Child Care & Development Block Grant	93.575	42-6004568	55,393
Medical Assistance Program - Medicaid Administration	93.778	42-6004568	<u>30,497</u>
			<u>85,890</u>
(Passed through Drake University), Head Start	93.600	42-0680460	<u>1,555,256</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>2,162,333</u>
<b>Corporation for National and Community Services:</b>			
(Passed through Iowa Department of Education), Comm Serv Iowa	94.004	42-6004525	<u>7,720</u>
<b>U.S. Department of Defense, (Direct), Air Education &amp; Training Command</b>	12.999	N/A	<u>95,650</u>
<b>Total Cash Assistance Expended</b>			<u>36,077,382</u>
Noncash Assistance:			
U. S. Department of Agriculture:			
(Passed through State Department of Education), USDA Commodities	10.550	42-6004525	588,072
(Passed through U. S. Department of Defense), USDA Commodities	10.550	N/A	<u>98,000</u>
<b>Total Noncash Assistance Expended</b>			<u>686,072</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 36,763,454</u></u>

See Notes to Schedule of Expenditures of Federal Awards.

## Des Moines Independent Community School District

### Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

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#### Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of Des Moines Independent Community School District for the year ended June 30, 2006. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies is included in the schedule. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

#### Note 2. Significant Accounting Policies

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

#### Note 3. Pass-Through Funding

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

Program Title	Federal CFDA Number	Amount Provided to Subrecipient
Title I Grants	84.010A	103,906
Education for Homeless Children and Youth	84.196	20,000
Full Service Community School and Early Childhood Grant	84.215K	131,871
Mentoring Programs	84.184B	135,680

# Des Moines Independent Community School District

## Summary Schedule of Prior Audit Findings Year Ended June 30, 2006

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	Findings	Status	Corrective Action Plan or Other Explanation
<b>Reportable Conditions in Internal Control</b>			
05-II-A	The District does not have adequate segregation of duties needed for an effective system of internal accounting control over the payroll cycle.	Uncorrected	See similar finding and corrective action plan at 06-II-A.
05-II-B	The District does not have adequate segregation of duties needed for an effective system of internal accounting control over the cash disbursement cycle.	Uncorrected	See similar finding and corrective action plan at 06-II-B.
05-II-C	The District does not have adequate segregation of duties needed over student activity funds at the schools.	Uncorrected	See similar finding and corrective action plan at 06-II-C.
<b>Reportable Conditions in Administering Federal Awards</b>			
05-III-A	The District does not document the allocation of split-funded employee payroll costs and semiannual certifications are not completed by employees charged to a single federal award.	Uncorrected	See similar finding and corrective action plan at 06-III-A.
05-III-B	Semiannual certifications are not completed by employees charged to a single federal award.	Uncorrected	See similar finding and corrective action plan at 06-III-B.
05-III-C	The District does not have an adequate system in place to ensure that renewed vendors are not suspended or debarred	Uncorrected	See similar finding and corrective action plan at 06-III-C.

Des Moines Independent Community School District

Summary Schedule of Prior Audit Findings (Continued)  
 Year Ended June 30, 2006

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	Findings	Status	Corrective Action Plan
<b>Other Findings Related to Required Statutory Reporting:</b>			
05-IV-G	District does not maintain minutes of closed sessions.	Corrective action taken	
05-IV-H	<u>Finding 1</u> - Documentation to support the number of foster care students reported as enrolled is not maintained.	Uncorrected	See similar finding and corrective action plan at 06-IV-G Finding 1.
05-IV-H	<u>Finding 2</u> - Adequate documentation to support the number of open enrollment, tuition, home school assistance, shared time nonpublic, community college and dual enrolled students was not maintained.	Uncorrected	See similar finding and corrective action plan at 06-IV-G Finding 2.
05-IV-H	<u>Finding 3</u> - The District should use listings of students via full-time equivalents, rather than headcounts, of District high school students enrolled in community college.	Corrective action taken	
05-IV-J	Differences between adjusting journal entries and adjustments to the Certified Annual Report exists.	Uncorrected	See similar finding and corrective action plan at 06-IV-I.
05-IV-K	The Wellness Center Fund and Collage Fund had deficit fund balances as of June 30, 2005.	Partially corrected	See similar finding and corrective action plan at 06-IV-J.
05-IV-L	The Board did not approve all transfers between funds.	Corrective action taken	

# McGladrey & Pullen

Certified Public Accountants

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

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

We have audited the financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Des Moines Independent Community School District as of and for the year ended June 30, 2006, which collectively comprise Des Moines Independent Community School District's basic financial statements and have issued our report thereon dated November 7, 2006. 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 Des Moines Independent Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as items 06-II-A, 06-II-B and 06-II-C.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of Des Moines Independent Community School District in a separate letter dated November 7, 2006.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Des Moines Independent Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the basic financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters in Section IV of the Schedule of Findings and Questioned Costs are not intended to constitute legal interpretation of those statutes.

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

*McGladrey & Pullen, LLP*

Davenport, Iowa  
November 7, 2007

# McGladrey & Pullen

Certified Public Accountants

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

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

### Compliance

We have audited the compliance of Des Moines Independent Community School District with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*, that are applicable to each of the District's major federal programs for the year ended June 30, 2006. Des Moines Independent Community School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Des Moines Independent Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

## Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 06-III-A, 06-III-B, 06-III-C, 06-III-D and 06-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 that none of the reportable conditions described above is a material weakness.

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

*McGladrey & Pullen, LLP*

Davenport, Iowa  
November 7, 2006

Des Moines Independent Community School District

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2006

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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
84.027	Special Education Grants to States
84.173	Special Education Preschool Grants
93.600	Head Start
84.215	Iowa Demonstration Construction
84.215	Fund for the Improvement of Education

Dollar threshold used to distinguish between type A and type B programs: \$1,102,904

Auditee qualified as low-risk auditee?  Yes  No

(Continued)

Des Moines Independent Community School District

Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2006

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

A. Reportable Conditions in Internal Control

06-II-A

Finding: The District has an improper segregation of duties over the payroll system.

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

Context: A good internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

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

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

Response and Corrective Action Plan: Approximately 86 percent of District employees receive their pay via direct deposit. There continues to be an aggressive push to have both new and existing employees receive their pay via direct deposit. The District will review the distribution process for payroll checks to ensure adequate segregation of duties. The payroll department reconciles payroll runs to the payroll report that are printed with the payroll checks. The actual payroll check is folded and prepared for distribution by payroll staff.

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

(Continued)

Des Moines Independent Community School District

Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2006

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**06-II-B**

Finding: The District has an improper segregation of duties over the cash disbursement cycle.

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

Context: A good internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

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

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

Response and Corrective Action Plan: With the implementation of the new financial accounting system on December 4, corrective action plans have already been put in place. A vendor list is maintained in the financial accounting system, and the purchasing department is now solely responsible to maintain and update the vendors. An edit list showing newly added vendors will be reviewed periodically.

Accounts payable checks will be mailed directly from the data center. Check copies are no longer necessary. Business office staff will only have access to a check register report.

**06-II-C**

Finding: The District has an improper segregation of duties over cash receipts of the student activity funds at the schools.

Condition: The bookkeepers or office managers at the various schools maintain the records and deposit the cash. The Business Office records the receipt in the system.

Context: A good internal control contemplates an adequate segregation of duties so that no one person handles a transaction from its inception to completion.

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

(Continued)

Des Moines Independent Community School District

Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2006

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

Response and Corrective Action Plan: We will continue to analyze our accounting procedures to determine the most appropriate solution for our school offices.

**B. Compliance Findings**

None

**III. Findings and Questioned Costs for Federal Awards**

**A. Reportable Conditions in Administering Federal Awards**

U.S. Department of Education  
Passed Through Iowa Department of Education  
Title I Grants to Local Educational Agencies (LEAs) (Title I, Part A of ESEA)  
(CFDA 84.010A) (Fiscal Years 2003, 2004, 2005, 2006)

Improving Teacher Quality State Grant (Title II)  
(CFDA 84.367) (Fiscal Years 2003, 2004, 2005, 2006)

U.S. Department of Education  
Passed Through Heartland Area Education Agency II  
Special Education Grants to States  
(CFDA 84.027 and CFDA 84.173) (Fiscal Years 2004, 2005, 2006)

U.S. Department of Health and Human Services:  
Passed Through Drake University  
HeadStart (CFDA 93.600) (Fiscal Years 2004, 2005, 2006)

**06-III-A**

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

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

(Continued)

Des Moines Independent Community School District

Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2006

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

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

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

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

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

(Continued)

Des Moines Independent Community School District

Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2006

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U.S. Department of Education  
Passed Through Iowa Department of Education  
Title I Grants to Local Educational Agencies (LEAs) (Title I, Part A of ESEA)  
(CFDA 84.010A) (Fiscal Years 2003, 2004, 2005, 2006)

Improving Teacher Quality State Grant (Title II)  
(CFDA 84.367) (Fiscal Years 2003, 2004, 2005, 2006)

U.S. Department of Education  
Passed Through Heartland Area Education Agency II  
Special Education Grants to States  
(CFDA 84.027 and CFDA 84.173) (Fiscal Years 2004, 2005, 2006)

06-III-B

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

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

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

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

Response and Corrective Action Plan: Workable procedures related to this issue have been difficult to develop. The District will continue to find a solution to annually document those employees which are fully funded by one federal program.

(Continued)

Des Moines Independent Community School District

Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2006

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U.S. Department of Agriculture  
Passed Through Iowa Department of Education  
Child Nutrition Cluster (CFDA 10.553, 10.555, and 10.559) (Fiscal Year 2005, 2006)

U.S. Department of Education  
Passed Through Iowa Department of Education  
Iowa Demonstration and Construction Grant (CFDA 84.215) (Fiscal Year 2006)

06-III-C

Finding: The District does not have an adequate system in place for ensuring that renewed vendors used are not suspended or debarred from participation in federal programs.

Condition: Currently, the District's purchasing policy and renewal bid documents that vendors certify do not include the wording to ensure the vendors are not suspended or debarred. In addition, the District does not check the suspended/debarred listing to ensure those contracted with are not suspended or debarred.

Criteria/Context: OMB Circular A-133 dictates that when a nonfederal entity (i.e. the District) enters into a contract (through a bidding process) with an entity (vendor), the nonfederal entity must verify that the entity is not suspended or debarred from participation in federal programs/grants.

Recommendation: We recommend the District implement a system by updating its purchasing policy and bid documents to ensure renewed vendors are not suspended or debarred, prior to entering into contracts, for all transactions (federal and nonfederal).

Response and Corrective Action Plan: The District has developed procedures to ensure new contracts comply with these requirements. The District has made progress with contracts that are renewed; however, the District will continue to perform established procedures to ensure the vendors are not debarred or suspended from participation in federal programs.

06-III-D

U.S. Department of Education  
Passed Through Iowa Department of Education  
Iowa Demonstration and Construction Grant (CFDA 84.215) (Fiscal Year 2006)

Finding: The District did not meet the requirements in regards to the Davis-Bacon Act with one of their contractors with a contract cost in excess of \$2,000.

Condition: The District did not include in their construction contract with one contractor that the contractor needs to comply with the requirements of the Davis-Bacon Act. This also includes a requirement for the contractor to submit to the District weekly, for each week in which any contract work is performed, a copy of the payroll and statement of compliance.

(Continued)

Des Moines Independent Community School District

Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2006

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Criteria/Context: OMB Circular A-133 dictates that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must have prevailing wage rate clauses included in the contracts between the grantee (the District) and contractor/subcontractor and that the contractor/subcontractor must submit weekly certified payrolls to the grantee.

Recommendation: Although the contractor verified as of the report date that they had knowledge of the Davis-Bacon provisions, we recommend the District develop procedures to ensure the general requirements of the Davis-Bacon Act are being met for all contracts entered into with contractors or subcontractors in excess of \$2,000 through formal written communications.

Response and Corrective Action Plan: The District already had procedures in place to ensure construction contracts in excess of \$2,000 financed by federal assistance funds have the prevailing wage rate clause in the contracts. The District will also ensure that multi-year contracts comply with these established procedures related to the Davis-Bacon Act.

06-III-E

U.S. Department of Health & Human Services  
Passed Through Drake University  
Head Start (CFDA 93.600) (Fiscal Year 2006)

U.S. Department of Education  
Passed Through Iowa Department of Education  
Iowa Demonstration Construction (CFDA 84.215) (Fiscal Year 2006)

Finding: The District does not separately track capital assets acquired with Federal awards nor do they take a physical inventory of these assets at least once every two years.

Condition: The District has acquired capital assets with funding from both the Head Start program as well as the Iowa Demonstration Construction grant with costs in excess of \$5,000 that should be accounted for under the general requirements of OMB Circular A-133.

Criteria/Context: OMB Circular A-133 dictates that equipment having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit acquired under Federal awards needs to be identified and have property records that contain the following information about the equipment: description (including serial number or other identification number), source, who holds title, acquisition date and cost, percentage of Federal participation in the cost, location, condition, and any ultimate disposition data including the date of disposal and sales price or method used to determine current fair market value. Also, the District must reimburse the awarding agency for the appropriate Federal share, if required by the agency and dispositions of equipment acquired with Federal funds with a current per-unit fair market value of \$5,000 or more. A physical inventory of equipment acquired under Federal awards should be done at least once every two years.

(Continued)

Des Moines Independent Community School District

Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2006

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Recommendation: We recommend the District develop procedures to identify capital assets acquired using Federal awards and also keep track of disposals of these assets.

Response and Corrective Action Plan: With the implementation of the new financial accounting system on December 4, corrective action plans have already been put in place. We will now be able to track capital assets that have been purchased with federal dollars.

**B. Instances of Noncompliance**

None

**IV. Other Findings Related to Required Statutory Requirements**

**06-IV-A – Certified Budget** – Disbursements for the year ended June 30, 2006 did not exceed the amounts budgeted in the final amended certified budget.

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

**06-IV-C – Travel Expense** – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

**06-IV-D – Business Transactions** – No business transactions between the District and District officials or employees were noted.

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

**06-IV-F – Board Minutes** – The following was noted regarding the Board minutes:

Finding 1: The District does not sign off on meeting minutes.

Recommendation: Meeting minutes should be signed off after every meeting in accordance with Chapter 380.7.

Response and Corrective Action Plan: Beginning October 2006, the District will have board secretary sign off meeting minutes after every meeting.

Conclusion: Response accepted

Finding 2: The District does not publish the proceedings of each regular, adjourned, or special meeting of the board in at least one newspaper published in the District. The secretary shall furnish a copy of the proceedings to be published within two weeks following the adjournment of the meeting.

(Continued)

Des Moines Independent Community School District

Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2006

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Recommendation: Proceedings of regular, adjourned or special meeting of the board should be published in at least one newspaper published in the District within two weeks following the adjournment of the meeting in accordance with Chapter 279.35 & 279.36.

Response and Corrective Action Plan: Beginning October 2006, the District will have proceedings of regular, adjourned or special meetings of the board published within two weeks following the adjournment of the meeting.

Conclusion: Response accepted

Finding 3: The District did not keep track of how each member voted on the question of holding the closed session at the August 2, 2005 meeting.

Recommendation: The District should document how each member voted on the question of holding the closed session in accordance with 21.5.

Response and Corrective Action Plan: Beginning October 2006, the District will keep track of each members vote on the question of holding the closed session.

Conclusion: Response accepted

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

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

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

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

Conclusion: Response accepted.

(Continued)

Des Moines Independent Community School District

Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2006

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Finding 2: The District does not keep documentation supporting the number of tuition (including special education) and dual enrolled students. Based on documentation maintained by the District to support the basic enrollment certified to the Iowa Department of Education for September 2005. The following variances were noted:

Line No.	Certified Number	District Records
1	29,922.2	29,926.7
3	219.0	220.0

Recommendation: The District should update and maintain proper documentation on file supporting the number of students reported in the certified enrollment. The District should also notify the Iowa Department of Management and Iowa Department of Education as required of the variances.

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

Conclusion: Response accepted.

**06-IV-H – 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.

(Continued)

Des Moines Independent Community School District

Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2006

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**06-IV-I – Certified Annual Report** – The Certified Annual Report (CAR) was filed with the Iowa Department of Education timely.

Finding: In reconciling fiscal year 2005 proposed adjusting journal entries with a fund balance effect to the net fund adjustment on the 2006 Certified Annual Report (CAR), the net fund balance amount for one entry was not included as an adjustment on the CAR. This entry represents capital assets in the Print Shop internal service fund.

Recommendation: We recommend that the District contact the Iowa Department of Education of this difference.

Response and Corrective Action Plan: The District will contact the Iowa Department of Education and determine procedures in order to appropriately record the adjustments noted.

Conclusion: Response accepted.

**06-IV-J – Deficit Balances** – The Risk Management Fund and Collage Fund had deficit balances as of June 30, 2006 of \$233,582 and \$9,198, respectively.

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

Response and Corrective Action Plan: The District will continue to analyze alternatives to anticipated deficit balances in all fund types. Negative fund balance for the Collage Fund has decreased compared to the prior year. The negative balance for the Risk Management Fund is a combination of a third-party administration fee charged directly to the fund and premiums paid throughout the fiscal year for employees that are insured at the time of a monthly billing but do not receive a paycheck in the given month. The District will continue to identify these employees so that the appropriate accounts can be charged.

Conclusion: Response accepted.

Des Moines Independent Community School District

Corrective Action Plan  
Year Ended June 30, 2006

Current Number	Comment	Corrective Action Plan	Anticipated Date of Completion	Contact Person
<b>Reportable Conditions in Internal Control:</b>				
06-II-A	The District does not have adequate segregation of duties needed for an effective system of internal accounting control over the payroll cycle.	See response and corrective action plan at 06-II-A.	June 30, 2007	Twyla Woods
06-II-B	The District does not have adequate segregation of duties needed for an effective system of internal accounting control over the cash disbursement cycle.	See response and corrective action plan at 06-II-B.	June 30, 2007	Patricia Schroeder
06-II-C	The District does not have adequate segregation of duties needed over student activity funds at the schools.	See response and corrective action plan at 06-II-C.	June 30, 2007	Patricia Schroeder
<b>Reportable Conditions in Administering Federal Awards:</b>				
06-III-A	The District does not document the allocation of split-funded employee payroll costs and semiannual certifications are not completed by employees charged to a single federal award.	See response and corrective action plan at 06-III-A.	June 30, 2007	Judi Cunningham
06-III-B	Semiannual certifications are not completed by employees charged to a single federal award.	See response and corrective action plan at 06-III-B.	June 30, 2007	Judi Cunningham
06-III-C	The District does not have an adequate system in place to ensure that renewed vendors are not suspended or debarred.	See response and corrective action plan at 06-III-C.	June 30, 2007	Duane Van Hemert
06-III-D	The District did not meet the requirements in regards to the Davis-Bacon Act with one of their contractors with a contract cost in excess of \$2,000	See response and corrective action plan at 06-III-D.	June 30, 2007	Duane Van Hemert
06-III-E	The District does not separately track capital assets acquired with Federal awards nor do they take a physical inventory of these assets once every two years.	See response and corrective action plan at 06-III-E.	June 30, 2007	Patricia Schroeder

(Continued)

Des Moines Independent Community School District

Corrective Action Plan (Continued)  
Year Ended June 30, 2006

Current Number	Comment	Corrective Action Plan	Anticipated Date of Completion	Contact Person
<b>Other Findings Related to Required Statutory Reporting:</b>				
06-IV-F	<u>Finding 1</u> - The District does not sign off on meeting minutes.	See response and corrective action plan at 06-IV-F.	June 30, 2007	Klark Jessen
06-IV-F	<u>Finding 2</u> - The District does not publish the proceedings of each regular, adjourned, or special meeting of the board in at least one newspaper published in the District.	See response and corrective action plan at 06-IV-F.	June 30, 2007	Klark Jessen
06-IV-F	<u>Finding 3</u> - The District does not keep track of how each member voted on the question of holding the closed session.	See response and corrective action plan at 06-IV-F.	June 30, 2007	Klark Jessen
06-IV-G	<u>Finding 1</u> - Documentation to support the number of foster care students reported as enrolled is not maintained.	See response and corrective action plan at 06-IV-G.	June 30, 2007	Carol Gustafson
06-IV-G	<u>Finding 2</u> - Adequate documentation to support the number of tuition and dual enrolled students was not maintained.	See response and corrective action plan at 06-IV-G.	June 30, 2007	Carol Gustafson
06-IV-I	A difference between an adjusting journal entry and adjustments to the Certified Annual Report exists.	See response and corrective action plan at 06-IV-I.	June 30, 2007	Patricia Schroeder
06-IV-J	The Risk Management Fund and Collage Fund had deficit fund balances as of June 30, 2006.	See response and corrective action plan at 06-IV-J.	June 30, 2007	Patricia Schroeder