

CITY OF WATERLOO, IOWA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
JUNE 30, 2004

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Introductory Section

March 28, 2005

Honorable Mayor, Members of the City Council
and Citizens
City of Waterloo, Iowa

The Comprehensive Annual Financial Report of the City of Waterloo, Iowa (the “City”) for the fiscal year ended June 30, 2004 is submitted herewith in accordance with the provisions of Chapter 11 of the Code of Iowa. This report represents the eighth consecutive year that our financial statements are presented in accordance with generally accepted accounting principles and the second time that it is presented in accordance with Government Accounting Standard # 34. This standard results in a different presentation of the City’s financial information. This report is published to provide the Mayor, City Council, financial institutions and our citizens detailed information concerning the financial condition of the City of Waterloo.

Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City’s financial activity have been included.

To facilitate the understanding of the City’s financial affairs, this report is organized into four sections: introductory, financial, statistical and financial assistance compliance. The introductory section, which is unaudited, includes the table of contents, this transmittal letter, a listing of principal City officials and the City’s organizational chart. The financial section includes the independent auditors’ report, management’s discussion and analysis, and the basic financial statements together with accompanying notes, required supplementary information including the budgetary comparison schedules and other supplementary information including combining statements for nonmajor funds and schedules that provide detailed information relative to the basic financial statements. The statistical section, which is also unaudited, contains comprehensive statistical data that is intended to provide a broader and more complete understanding of the financial and economic trends of the City, generally presented on a multi-year basis. The financial assistance section includes schedules of federal financial assistance received and expended in addition to schedules detailing compliance with laws and regulations.

Chapter 11 of the Code of Iowa requires an annual audit of the financial condition and transactions of the City. The City is also required to undergo an annual single audit in

conformity with the U.S. Office of Management and Budget (OMB) Circular A-133, “Audits of States, Local Governments, and Nonprofit Organizations.” The required audit was performed by Hogan-Hansen, P.C., Certified Public Accountants and Consultants for the fiscal year ended June 30, 2004.

THE CITY’S BACKGROUND AND SERVICES

Waterloo is the fifth largest city in the state of Iowa, with a 2000 census of 68,747. The City was incorporated in 1868 and is the county seat of Black Hawk County. The City operates under a Mayor – Council form of government, with the mayor as the elected chief executive. The City Council is comprised of seven members, of which five are elected from five wards and two members are elected at-large. The Mayor is elected to two-year terms, and the City Council members are elected to four-year staggered terms.

The City is organized into 20 operating departments, the activities of which are directed by the Mayor. The public services provided by the employees of the City include police, fire, library, leisure services including parks and recreation, cultural and arts, human rights, street maintenance and engineering services. The City also performs solid waste collection, waste water treatment, community planning, community development, housing assistance, building inspections, airport operations, motor pool maintenance services and traffic safety operations. In addition to the human resources and management information systems departments, the city attorney, city clerk and chief financial officer and their respective departments perform various administrative functions.

The Waterloo Water Works is operated as an independent component unit of the City, and therefore, transactions of the Water Works are required to be included in this report. The Waterloo Community School District and the Metropolitan Transit Authority do not meet the established criteria for component entities of the City and are therefore not included in this report.

MAJOR INITIATIVES AND PROJECTS

➤ Cedar Valley Riverfront Renaissance

A major project identified as the Cedar Valley Riverfront Renaissance Plan is currently in the planning and development phase. This project will draw the community together around the Cedar River, one of the area’s most valuable natural resources, re-establish a strong center for downtown, help recruit significant new business, expand tourism and improve the use of existing facilities. It includes the following projects, among others:

- Cedar River Plaza
- Riverwalk Loop
- Cedar River Dam Improvements
- Grout Museum Addition
- East Side Ministerial Alliance Community Center
- Youth Pavilion at Waterloo Culture & Art Center

The Riverfront Renaissance project will be funded using distributions from the Black Hawk County Solid Waste Commission in addition to funds received from the Vision Iowa program. The first three projects listed above have been approved to receive \$7.3 million from the Vision Iowa program. As a part of that award, the City also participated in funding the construction of the East Side Ministerial Alliance Community Center. Black Hawk County and the cities of Cedar Falls, Evansdale and Waterloo presented a combined application to the Vision Iowa Program. The communities received a total award of \$9.5 million, which will result in a total investment of more than \$35 million in these communities. The City's award under the Vision Iowa program had been contested legally, however; this situation was resolved in the City's favor. The City of Waterloo Culture and Art Center plans a \$3 million Youth Pavilion addition for which construction is expected to be underway in 2005.

➤ Airport

Terminal renovations at the airport are complete. The renovations resulted in an investment of \$5.5 million in the airport facility. The Federal Aviation Administration has awarded grants totaling \$2.125 million toward the total project.

➤ Former Rath Packing and John Deere Brownfields Pilot Area

The City of Waterloo has secured nearly \$4.5 million in funding to be used to revitalize the former Rath Packing and John Deere Brownfields area. These funds are being used for a variety of projects, such as the replacement of the Eighteenth Street Bridge, a study of the hydrology of the Cedar River, and the acquisition and redevelopment of property along the riverfront and throughout the Brownfields area in addition to the investigation and associated risk assessment of perceived environmental impairments in the Brownfields Pilot Area.

A \$1 million pilot grant from the Environmental Protection Agency (EPA) to establish a Brownfields Cleanup Revolving Loan Fund (BCRLF) has also been awarded to the City. This BCRLF award is a major component of the EPA's Brownfields Economic Redevelopment Initiative and will enable the City to make low interest loans to facilitate the cleanup and redevelopment of Brownfields properties.

➤ WasteWater Treatment Plant

The City has completed a large portion of the improvements required to the wastewater treatment facilities involving nearly \$67 million in federal and city funding. Final completion of this project is scheduled for the second quarter of fiscal 2006.

➤ Street Improvements

Waterloo continues to upgrade its street system with the substantial program of reconstruction, overlays and long-term repairs funded with more than \$7 million in annual local option sales tax collections. The one cent local option tax was recently renewed by the taxpayers for another five years, to be used for street repairs and improvements.

➤ Recreational facilities

The City is continuing to develop its extensive system of bike trails, which are being connected to countywide and regional trail networks. A new recreational area for all-terrain vehicle trails has been developed in the Riverview neighborhood. Expanded lake fishing facilities are being constructed.

ECONOMIC OUTLOOK

The outlook of the economy of Waterloo and the Cedar Valley area remains positive with continued growth and strong commercial and industrial activity. Building permit valuation of \$102.8 million for all construction in Waterloo continued at a pace greater than the previous decade. The median sales price for homes in the Waterloo-Cedar Falls area has increased by 70% since 1995 (an annual average rate of 7%), appreciating from \$56,500 to \$96,000 as of 2004. Retail sales have also increased steadily by an annual average rate of approximately 2.7% in Waterloo during the past ten years. Retail sales in 1995 totaled \$752 million and had reached \$954 million during the fiscal year ended June 30, 2004. The 2000 census reflected population growth of 3.4% from 1990. Although Waterloo has not returned to the population levels of the seventies, this increase is significant as it indicates a change in trend from a declining population to a growing population.

Overall city tax base growth remains moderate at an average annual level of approximately 3.3% for the last five years. John Deere and Company continues to play a major role in the local economy. Deere remains the city's largest employer and one of the largest taxpayers, currently accounting for about 7.8% of total county employment and about 0.6% of total taxable property values. Deere's staff levels have remained relatively constant despite the current problems in the U.S. agriculture sector. While the city's average unemployment level of 5.7% remains above the state level of 4.4%, overall annual city employment growth has improved this city ratio substantially from a peak of 7.6% in the early 1990s. The City's unemployment rate remains below the national level of 5.5%.

In December 2000, John Deere announced that it would spend \$127 million to upgrade its downtown and East Donald Street manufacturing facilities over the next four years. John Deere has informed the City that it also plans to upgrade all of its Waterloo

operations: the Engine Works; the Product Engineering Center, where much of the Company's research and development occurs; and the Waterloo Foundry, which has already seen the addition of \$20 million in redevelopment. John Deere projects that such investment may exceed \$500 million by 2010. John Deere has hired nearly 2,000 people since 2000 under the redevelopment plan, both in new positions and replacing retirees.

The outlook remains positive for the continuation of these upward trends based upon the redevelopment that will occur with the Riverfront Renaissance projects, John Deere's investment in the community and the success in the Mid Port America Industrial Park and the Northeast Industrial Park. Waterloo was listed as the fifth highest job growth in the United States by the Bureau of Labor Statistics at the October level of 76,700. The construction of a large distribution facility at the Northeast Industrial Park will add a complex estimated to be valued at nearly \$18 million and employ over 200 persons. Major commercial expansions in the southern sector of the City, as well as in the new Technology Park, are strong indications of continued business interest in Waterloo. A locally owned company has announced the construction of a 20,000 square foot facility and the plan to hire over 240 new associates. The completion of a new corporate headquarters complex in the downtown has stimulated significant additional interest in development activities in the central business district. The Cedar Valley TechWorks has received a \$3,200,000 from the Iowa Values Fund to develop companies for the new economy.

The long term commercial and industrial viability of the Waterloo and Cedar Falls area is anticipated to improve with the completion in the next few years of two four-lane highway corridors passing through the City with the "Avenue of the Saints" running north to St. Paul from St. Louis, and US Highway 20 running from Chicago to Interstate 35 and programmed to continue west to Interstate 29 at Sioux City. In addition, the City is undertaking a project to study the reconstruction of Highway 63 through downtown Waterloo. This has resulted in the appropriation of \$2,500,000 to complete the design and initiate construction. The primary goals of this project are to correct the highway's current negative impact on adjacent low income and minority-populated communities, improve traffic operations and capacity and encourage private sector development along this corridor.

FINANCIAL MANAGEMENT INFORMATION

Internal Controls - City management is responsible for establishing and maintaining internal controls designed to ensure that the assets of the City are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal control is designed to provide reasonable, but not absolute assurance that those objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Controls - The City's management staff is responsible and is actively involved in the financial planning and management of the City for both short-term daily operations and long-range strategic planning. The objective of established budgetary controls is to

ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council, as well as the budget control procedures mandated by the State of Iowa for the prevention of spending that would lead to negative fund balance.

Budgetary control is exercised at two levels in compliance with both the requirements of the Code of Iowa and the City Council’s adopted policies. Management control polices adopted by the City Council require that departmental and activity budgets comply with line-item appropriations. Amendments exceeding de minimus guidelines require the specific approval of the City Council Finance Committee. The adopted policies also require all expenditures exceeding \$1,000 to be pre-authorized by the City Council Finance Committee, which reviews those items for budget availability and compliance with procurement procedures.

Long-term financial and capital improvement planning are crucial strategic functions of the City. The City’s management staff, coordinated by the Planning Department, prepares and presents the five-year Capital Improvement Program (CIP) to the Mayor and City Council for their review and approval annually. The CIP outlines the City’s planned schedule of capital project construction over the next five-year cycle. The CIP provides an analysis of the financial funding impact and capital debt impact of the planned construction project program.

General Government Financial Analysis - A financial analysis of the general governmental functions for the fiscal year ended June 30, 2004 follows. Included in this analysis are the revenues and expenditures of the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Funds for the fiscal years ended June 30, 2004 and 2003 as well as percentage changes between the two years.

Revenues are presented by classification. Total governmental revenues of \$73,673,155 for the year ended June 30, 2004 represent an increase of approximately \$3.2 million from the previous fiscal year.

Revenue Sources	Revenue June 30, 2004	Revenue June 30, 2003	Percentage Increase (Decrease) From June 30, 2003
Property taxes	\$31,726,881	\$28,916,809	9.7%
Other city taxes	9,187,463	10,299,221	(10.8)
Licenses and permits	1,151,715	988,352	16.5
Use of money and property	733,879	1,266,266	(42.0)
Intergovernmental	19,963,676	18,779,334	6.3
Charges for services	5,791,181	5,236,433	10.6
Interfund charges for service	2,671,780	2,645,250	1.0
Special assessments/ Miscellaneous	<u>2,446,580</u>	<u>2,296,537</u>	6.5
Total Revenue	<u>\$73,673,155</u>	<u>\$70,428,202</u>	4.6%

Property taxes increased due to a tax levy increase adopted by the City Council. Intergovernmental revenues increased primarily due to additional grant revenues received from the Department of Housing and Urban Development.

The following schedule presents the expenditures reported by program budget category for the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Funds as determined using the modified accrual basis of accounting for the fiscal year ended June 30, 2004.

Expenditures	Expenditures June 30, 2004	Expenditures June 30, 2003	Percentage Increase (Decrease) From June 30, 2003
Public safety	\$20,081,214	\$19,393,834	3.5%
Public works	17,121,845	18,719,419	(8.5)
Health and social services	517,555	510,114	1.5
Culture and recreation	6,506,123	5,987,808	8.7
Community and economic development	11,966,597	10,257,455	16.7
General government	3,501,031	3,310,503	5.7
Debt service	8,896,219	9,286,922	(4.2)
Capital projects	<u>7,820,334</u>	<u>5,289,432</u>	47.8
Total Expenditures	<u>\$76,410,918</u>	<u>\$72,755,487</u>	5.0%

DEBT ADMINISTRATION

The City issued general obligation bonds June 3, 2004 in a par amount of \$13,570,000 to finance capital improvements for various city projects. A portion of the bond issue, \$2,635,000, was used to refund the Series 1996 general obligation bonds. The City received a general obligation bond rating of A2 from Moody's Investors Service, Inc. for this issue.

As discussed further on page 13 of Management's Discussion and Analysis, the City's total outstanding general obligation debt is well below the limit provided for in by the Constitution of the State of Iowa.

CASH MANAGEMENT

The City's investment policy incorporates the traditional public finance criteria of "safety, liquidity and yield – in that order." Investments must also satisfy the criteria mandated by the State of Iowa. Accordingly, City funds are invested in deposits and depository investments insured up to \$100,000 by the Federal Depository Insurance Corporation and protected by the State of Iowa Sinking Fund for uninsured public funds in accordance with the requirements of Chapter 12b of the *Code of Iowa*.

ACKNOWLEDGMENTS

This report could not have been completed without the dedicated service of the entire staff of the City Clerk and Finance departments in addition to the audit team from Hogan – Hansen, P.C. I want to express my appreciation to everyone who was involved in the completion of the audit process and the preparation of this report including the staff of all City departments, and especially to Joyce Wessels, Mandi Timmerman and Ruth Hecht in the Finance Department. Each of you has my appreciation and respect for your contributions to this report. I also want to thank the Mayor and City Council for their participation in the planning and oversight processes of the City of Waterloo financial operations.

Sincerely,

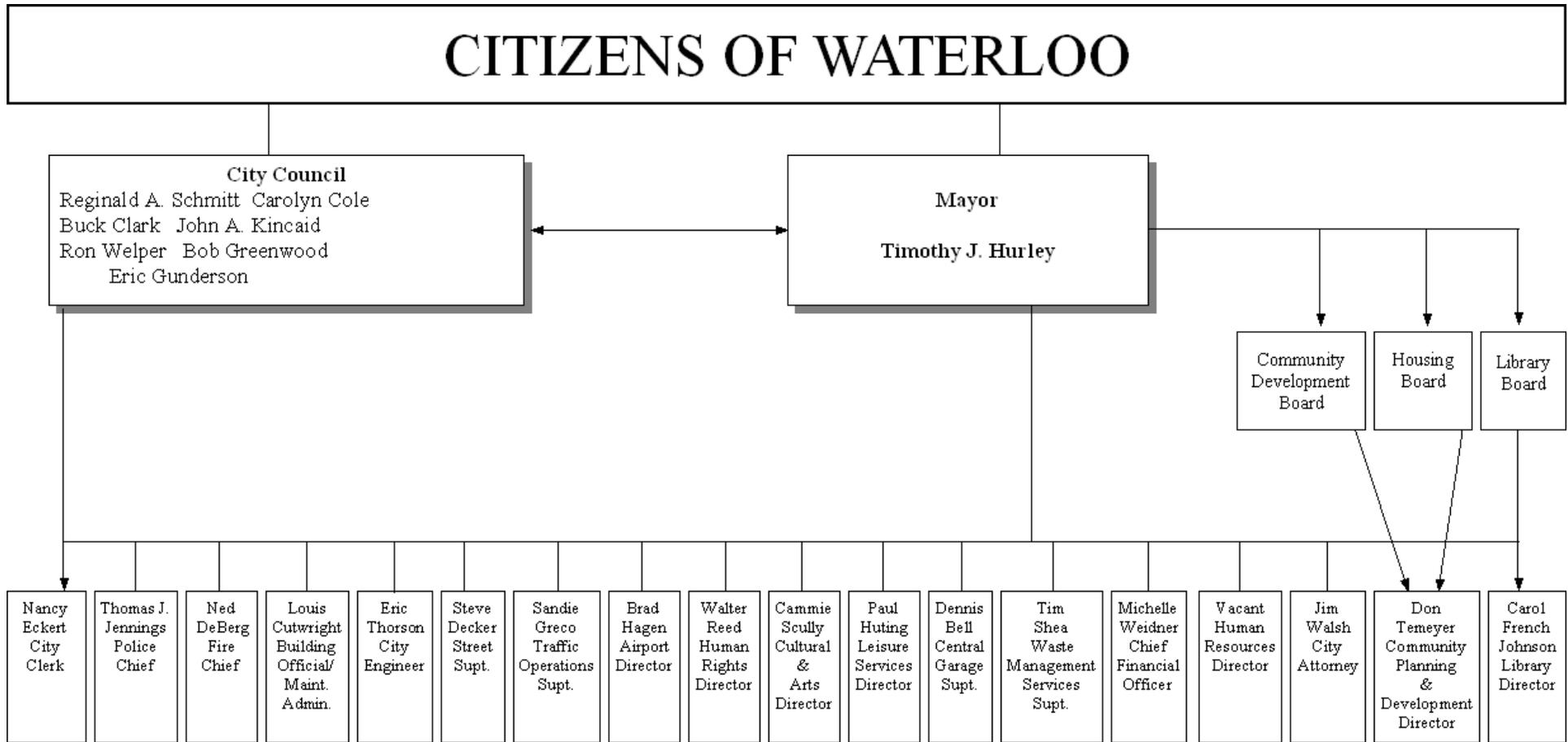
Michelle C. Weidner, CPA
Chief Financial Officer

Officials

June 30, 2004

Name	Title	Term Expires
Elected (Before January, 2004)		
John Roof	Mayor	January, 2004
Tim Hurley	Council Member - 1st Ward	January, 2006 (resigned December 31, 2003)
Scott Jordan	Council Member - 2nd Ward	January, 2004
Buck Clark	Council Member - 3rd Ward	January, 2006
John Kincaid (Appointed)	Council Member - 4th Ward	January, 2004
Ron Welper	Council Member - 5th Ward	January, 2006
Harold Getty	Council Member - At-Large	January, 2004
Bob Greenwood	Council Member - At-Large	January, 2006
(After December, 2003)		
Tim Hurley	Mayor	January, 2006
Reggie Schmitt (Appointed)	Council Member - 1st Ward	January, 2006
Carolyn Cole	Council Member - 2nd Ward	January, 2008
Buck Clark	Council Member - 3rd Ward	January, 2006
John Kincaid	Council Member - 4th Ward	January, 2008
Ron Welper	Council Member - 5th Ward	January, 2006
Bob Greenwood	Council Member - At-Large	January, 2006
Eric Gunderson	Council Member - At-Large	January, 2008
Appointed		
Michelle Weidner, CPA	Chief Financial Officer	Indefinite
Nancy Eckert, CMC	City Clerk	Indefinite
Eric Thorson	City Engineer	Indefinite
James E. Walsh	City Attorney	Indefinite
Ned DeBerg	Chief of Fire Department	Indefinite
Thomas J. Jennings	Chief of Police Department	Indefinite

CITY OF WATERLOO, IOWA -- ORGANIZATIONAL STRUCTURE



Financial Section

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Waterloo, Iowa

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Waterloo, Iowa, at and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the City'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, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, business-type activities, each major fund and the aggregate remaining fund information of the City of Waterloo, Iowa, at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 25, 2005 on our consideration of the City of Waterloo, Iowa's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

To the Honorable Mayor and
Members of the City Council
City of Waterloo, Iowa
Page 2

Management's Discussion and Analysis and budgetary comparison information on pages 3 through 14 and 57 through 59 are not required parts 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 on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Waterloo, Iowa's basic financial statements. The accompanying supplemental data on pages 60 through 87, 103 through 107, 114 and 115 is presented for purposes of additional analysis and is not a required part of the financial statements of the City of Waterloo, Iowa. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the aforementioned financial statements taken as a whole. Information included in the statistical section (pages 88 through 98) has not been audited by us and we express no opinion or provide any other assurance on it.

HOGAN - HANSEN

HOGAN - HANSEN

Waterloo, Iowa
January 25, 2005

Management's Discussion and Analysis

As management of the City of Waterloo, we offer readers of the City of Waterloo's financial statements this narrative overview and analysis of the financial activities of the City of Waterloo for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found at pages i-viii of this report.

Financial Highlights

- The assets of the City of Waterloo exceeded its liabilities at the close of the most recent fiscal year by \$146,836,388 (net assets). Of this amount, \$10,349,902 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$17,436,254.
- As of the close of this current fiscal year, the City of Waterloo's governmental funds reported combined ending fund balances of \$30,719,671, an increase of \$7,966,466 in comparison with the prior year. Approximately 85.6% of this total amount, \$26,294,233, is available for spending at the government's discretion (unreserved undesignated fund balance).
- At the end of the current fiscal year, unreserved undesignated fund balance for the General Fund was \$3,783,989, or 12% of total General Fund expenditures.
- The City of Waterloo's total debt decreased by \$2,469,208 (2.6%) during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Waterloo's basic financial statements. The City of Waterloo's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Waterloo's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City of Waterloo's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Waterloo is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related

cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Waterloo that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Waterloo include public safety, public works, health and social services, culture and recreation, community and economic development and general government. The business-type activities of the City of Waterloo include the sanitary sewer system, the solid waste system and the water utility, which is operated as a separate component unit of the City. For detailed information about the water utility, please see their separate audited financial statements.

The government-wide financial statements include only the City of Waterloo itself (known as the primary government) and its component unit, the Waterloo Water Works. The Waterloo Community School District and the Metropolitan Transit Authority provide services to the citizens of Waterloo but do not meet established criteria as component units of the City and thus are not included in this report.

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. The City of Waterloo, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Waterloo 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 government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Waterloo maintains 20 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Employee Benefits Fund, Local Option Tax Fund and General Obligation Debt Service

Fund, all of which are considered to be major funds. Data from the other 16 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary funds. The City of Waterloo maintains two proprietary funds, which are used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sanitary sewer fund and the sanitation fund. The sanitary sewer fund is considered to be a major fund of the City of Waterloo.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Waterloo's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City maintains one fiduciary fund defined as an agency fund to reflect activity for Iowa Department of Economic Development Community Economic Betterment Accounts (CEBA) loans and grants. Total assets held in this fund at June 30, 2004 were \$170,300.

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

Other information. The City's budgetary comparison schedule is presented as required supplementary information immediately following the notes to the financial statements. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Waterloo, assets exceeded liabilities by \$146,836,388 at the close of the fiscal year ended June 30, 2004.

By far the largest portion of the City of Waterloo's net assets (70%) reflects its investment in capital assets (e.g., land, buildings and improvements, infrastructure and vehicles and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Waterloo uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Waterloo's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Statement of Net Assets

A condensed version of the Statement of Net Assets as of June 30, 2004 and 2003 follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Assets						
Current and other assets	\$ 73,435,803	\$ 63,215,962	\$ 13,150,417	\$ 11,998,178	\$ 86,586,220	\$ 75,214,140
Capital assets	<u>107,904,170</u>	<u>98,004,580</u>	<u>88,921,903</u>	<u>89,707,556</u>	<u>196,826,073</u>	<u>187,712,136</u>
Total Assets	<u>\$ 181,339,973</u>	<u>\$ 161,220,542</u>	<u>\$ 102,072,320</u>	<u>\$ 101,705,734</u>	<u>\$ 283,412,293</u>	<u>\$ 262,926,276</u>
Liabilities						
Current liabilities	\$ 45,225,839	\$ 43,020,261	\$ 3,704,021	\$ 3,666,604	\$ 48,929,860	\$ 46,686,865
Long-term liabilities	<u>56,889,585</u>	<u>53,123,724</u>	<u>30,756,460</u>	<u>32,308,262</u>	<u>87,646,045</u>	<u>85,431,986</u>
Total Liabilities	<u>\$ 102,115,424</u>	<u>\$ 96,143,985</u>	<u>\$ 34,460,481</u>	<u>\$ 35,974,866</u>	<u>\$ 136,575,905</u>	<u>\$ 132,118,851</u>
Net Assets						
Invested in capital assets, net of related debt	\$ 46,671,542	\$ 40,960,660	\$ 55,900,582	\$ 55,430,659	\$ 102,572,124	\$ 96,391,319
Restricted	<u>27,827,667</u>	<u>20,983,272</u>	<u>6,086,695</u>	<u>5,417,860</u>	<u>33,914,362</u>	<u>26,401,132</u>
Unrestricted	<u>4,725,340</u>	<u>3,132,625</u>	<u>5,624,562</u>	<u>4,882,349</u>	<u>10,349,902</u>	<u>8,014,974</u>
Total Net Assets	<u>\$ 79,224,549</u>	<u>\$ 65,076,557</u>	<u>\$ 67,611,839</u>	<u>\$ 65,730,868</u>	<u>\$ 146,836,388</u>	<u>\$ 130,807,425</u>

\$33,914,362 of the City of Waterloo's net assets (23.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$10,349,902) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Waterloo is able to report positive balances in all three categories of net assets for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The City's total net assets increased by \$16,028,963 during the current fiscal year. The governmental-type activities increased by \$14,147,992. This increase was related to the net effect of capital asset transactions. See page 23 for a reconciliation of this increase. The total business-type activities' net assets increased by \$1,880,971. This increase was mainly attributable to the City's investment in capital assets during the fiscal year.

Statement of Activities

A condensed version of the Statement of Activities as of June 30, 2004 and 2003 follows:

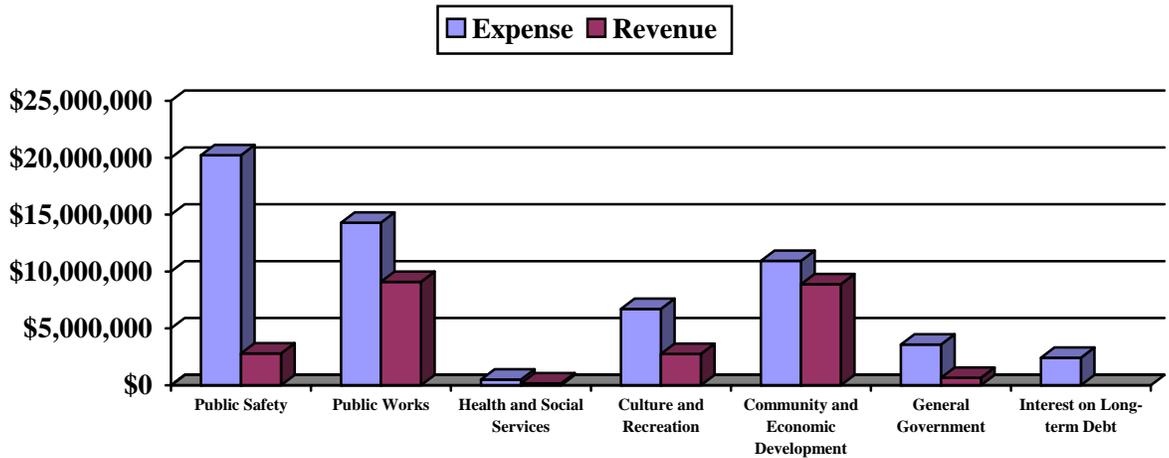
City of Waterloo Governmental and Business-Type Activities

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Revenue						
Program Revenues						
Charges for services	\$ 5,011,504	\$ 5,841,769	\$ 12,658,065	\$ 12,042,002	\$ 17,669,569	\$ 17,883,771
Indirect allocations	1,426,067	1,412,750	(1,426,067)	(1,412,750)	—	—
Operating grants and contributions	16,531,573	14,395,839	274,988	—	16,806,561	14,395,839
Capital grants and contributions	4,548,472	2,707,872	483,456	364,413	5,031,928	3,072,285
General Revenues						
Property taxes	31,692,923	28,685,933	—	—	31,692,923	28,685,933
Other taxes	9,725,075	10,299,221	—	—	9,725,075	10,299,221
Other	3,852,041	5,278,415	44,264	90,658	3,896,305	5,369,073
Total Revenue	<u>72,787,655</u>	<u>68,621,799</u>	<u>12,034,706</u>	<u>11,084,323</u>	<u>84,822,361</u>	<u>79,706,122</u>
Expenses						
Public safety	20,214,741	19,924,337	—	—	20,214,741	19,924,337
Public works	14,281,994	8,308,545	—	—	14,281,994	8,308,545
Health and social services	514,033	513,478	—	—	514,033	513,478
Culture and recreation	6,711,952	7,446,469	—	—	6,711,952	7,446,469
Community and economic development	10,944,399	10,467,412	—	—	10,944,399	10,467,412
General government	3,574,962	3,528,784	—	—	3,574,962	3,528,784
Interest on long-term debt	2,410,195	2,757,830	—	—	2,410,195	2,757,830
Sanitary sewer	—	—	7,958,899	7,516,312	7,958,899	7,516,312
Sanitation	—	—	2,182,223	2,133,517	2,182,223	2,133,517
Total Expenses	<u>58,652,276</u>	<u>52,946,855</u>	<u>10,141,122</u>	<u>9,649,829</u>	<u>68,793,398</u>	<u>62,596,684</u>
Increase in Net Assets						
Before Transfers	14,135,379	15,674,944	1,893,584	1,434,494	16,028,963	17,109,438
Transfers	<u>12,613</u>	<u>73,391</u>	<u>(12,613)</u>	<u>(73,391)</u>	<u>—</u>	<u>—</u>
Increase in Net Assets	14,147,992	15,748,335	1,880,971	1,361,103	16,028,963	17,109,438
Beginning Net Assets, as restated	<u>65,076,557</u>	<u>48,195,919</u>	<u>65,730,868</u>	<u>64,094,777</u>	<u>130,807,425</u>	<u>112,290,696</u>
Ending Net Assets	<u>\$ 79,224,549</u>	<u>\$ 63,944,254</u>	<u>\$ 67,611,839</u>	<u>\$ 65,455,880</u>	<u>\$ 146,836,388</u>	<u>\$ 129,400,134</u>

Total governmental activities' revenue for the fiscal year was \$72,787,655. The largest single revenue source for the City was property taxes of \$31,692,923. Property taxes increased by \$3,006,990 (10.5%) during the year. This increase is a result of a combination of factors, including a 13.2% increase in the assessed value of property, a 9.8% increase in the taxable value of property, and a 0.63% decrease in the levy rate.

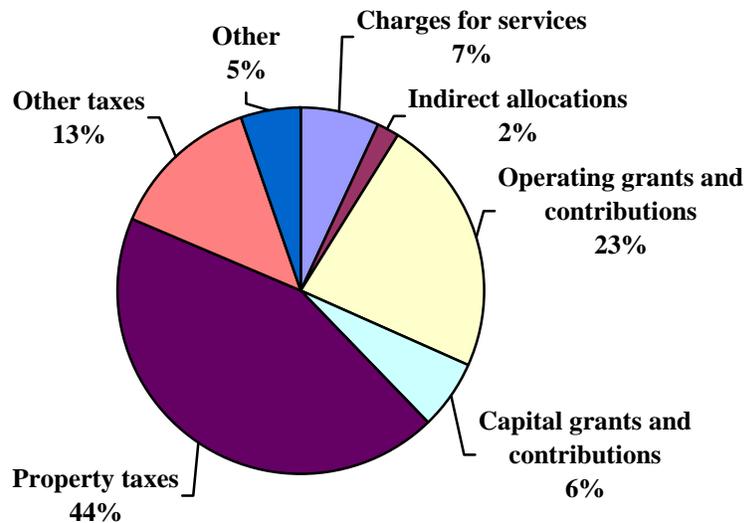
Certain revenues are generated that are specific to governmental program activities. These totaled \$27,517,616 during the fiscal year ended June 30, 2004. The graph below illustrates the comparison between the expenditures by governmental activity type and the revenues generated that are specific to those activities.

Expenses and Program Revenues – Governmental Activities



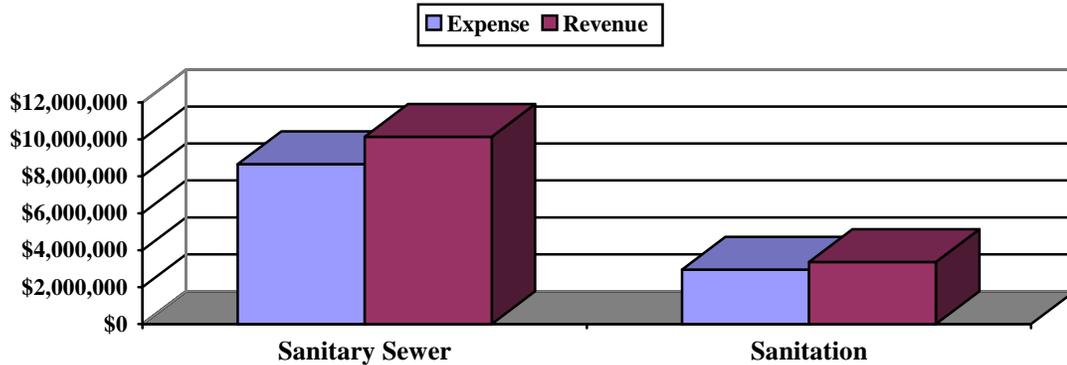
The graph below shows the percentage of the total governmental revenues allocated by each revenue type.

Revenues by Source – Governmental Activities



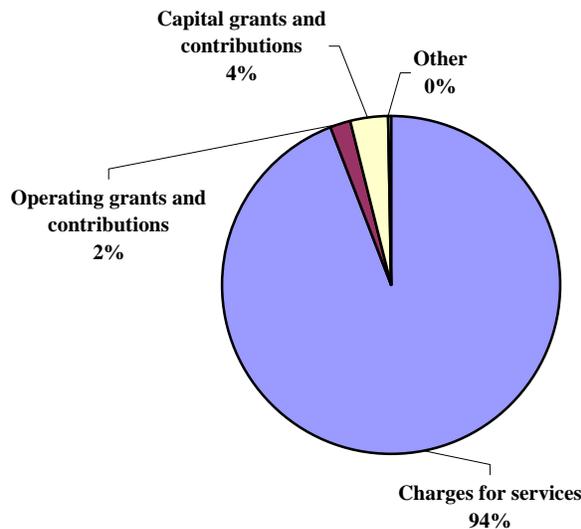
Total business-type activities' revenue for the fiscal year was \$12,034,706. All of this revenue was generated for specific business-type activity expenses. The graph below shows a comparison between the business-type activity expenditures and program revenues.

Expenses and Program Revenues – Business-type Activities



The graph below shows the breakdown of revenues by source for the business-type activities.

Revenues by Source – Business-type Activities



Business-type activities. Business-type activities increased the City of Waterloo's net assets by \$1,880,971, accounting for 11.7% of the growth in the government's net assets. This increase was due primarily to the generation of operating revenue to retire debt incurred for sewer plant construction.

Financial Analysis of the Government's Funds

As noted earlier, the City of Waterloo uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Waterloo's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City of Waterloo's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Waterloo's governmental funds reported combined ending fund balances of \$30,719,671, an increase of \$7,966,466 in comparison with the prior year. Fund balance in the amount of \$2,258,735 is not available for new spending because it has already been committed for a variety of restricted purposes. Approximately 92.6% of total fund balance (\$28,460,936) constitutes unreserved fund balance, which is available for spending at the government's discretion. \$2,166,703 of the unreserved fund balance (\$28,460,936) has been designated by the City Council for specified purposes, leaving \$26,294,233 in uncommitted funds.

The General Fund is the chief operating fund of the City of Waterloo. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$3,783,989, while total fund balance was \$8,057,378. As a measure of the General Funds' liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 12% of total General Fund expenditures, while total fund balance represents 25.6% of that same amount.

The fund balance of the City of Waterloo's General Fund increased by \$2,239,696 during the current fiscal year. Key elements of this increase are the receipt of an equity distribution from the Black Hawk County Solid Waste Commission not yet spent in the net amount of \$792,875. In addition, expenses incurred by the police department were under budget by approximately \$319,000 and insurance policy deductible payments were \$229,000 less than budgeted. Several entities with loans from the City decided to refinance them with commercial financial institutions due to the low rate environment, accounting for \$321,000 in additional fund balance. The remaining balance arose from various other departments who spent less than the amount budgeted for their department or who received more revenue than that budgeted.

The Employee Benefits Fund has a total fund balance of \$273,981. The net increase in fund balance during the current year was \$77,555, a result of lower general fund employee benefits costs due to employee turnover.

The Local Option Tax Fund net assets increased by \$1,263,953 during the current year to a total fund balance of \$5,261,841, due primarily to the receipt of higher than anticipated revenue. A substantial portion of this balance will be used to satisfy outstanding construction contract commitments of \$4,019,982.

The Debt Service Fund has a total fund balance of \$741,599. The net increase in fund balance during the current year in the Debt Service Fund was \$243,268. This increase is primarily a result of lower required interest payments due to refunding bond issues.

Proprietary funds. The City of Waterloo's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the sanitary sewer fund at the end of the year were \$3,672,808. Other factors concerning the finances of the sanitary sewer fund have already been addressed in the discussion of the City of Waterloo's business-type activities.

Budgetary Highlights

In accordance with the Code of Iowa, the City Council annually adopts a budget on the modified cash basis following required public notice and hearing for all funds except fiduciary funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type and non-program. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds and permanent funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. These budget amendments are reflected in the final budgeted amounts.

Differences between the original budget and the final amended budget for the City of Waterloo can be summarized as follows:

- The total original revenue budget of \$98,389,059 was increased to \$145,137,438 (an increase of \$46,748,379).
- The total original expenditure budget of \$104,419,901 was increased to \$152,114,369 (an increase of \$47,694,468).
- The original budget (\$0) for debt refinancing was increased to \$26,800,000 in anticipating of completing a general obligation bond refunding of \$6,900,000 and a sewer revenue bond refunding of \$19,900,000. However, market conditions continued to fluctuate through year-end. The general obligation bond refunding was reduced to \$2,635,000. The sewer refunding issue was ultimately delayed until the following fiscal year.
- The total original budget for net transfers out of \$8,289,933 was increased to \$9,247,707 (an increase of \$957,774) to reflect additional construction related to sewer improvements.
- The above changes to budgets were related primarily to appropriations for capital improvements and the receipt of grant revenue for both operating purposes and capital improvements.

Actual revenues fell short of revised budget projections by \$6,425,968. This was primarily attributable to shortfalls in intergovernmental revenue of \$7,871,706, due to reimbursable grant projects started but not completed at year-end and therefore, the grant reimbursements were not yet received.

Other financing sources fell short of revised budget projections by \$31,833,507, largely due to the delay/cancellation of planned refunding bond issuances.

Expenditures were under budget by a sum total of \$51,034,298. This resulted from several factors: the delay/cancellation of the refunding bond issues mentioned above, (\$31,040,000) and amounts spent on capital projects that were less than budgeted for the year (\$17,873,710). In addition, as is typically the case, the City did not spend all community block grant funds awarded during the year.

See page 57 for the Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budgetary Basis – All Governmental Funds and Proprietary Funds.

Capital Asset and Debt Administration

Capital Assets. The City of Waterloo’s investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounts to \$196,826,073 (net of accumulated depreciation) as reflected in the following table. The total increase in the City of Waterloo’s investment in capital assets for the current fiscal year was 4.86% (a 10.1% increase for governmental activities and a 0.9% decrease for business-type activities).

This investment in capital assets includes land, buildings and improvements, park facilities, vehicles and equipment, and roads, highways and bridges (also referred to as infrastructure assets) placed in service since July 1, 2003 or under construction at June 30, 2004. The City has until June 30, 2007 to retroactively report infrastructure assets placed in service prior to July 1, 2002.

City of Waterloo Capital Assets at Fiscal Year End (Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Land	\$ 25,964,471	\$ 25,404,558	\$ 279,484	\$ 279,484	\$ 26,243,955	\$ 25,684,042
Land held for redevelopment	1,356,583	—	—	—	1,356,583	—
Buildings and improvements	29,153,174	28,932,035	61,049,574	62,316,581	90,202,748	91,248,616
Other improvements	—	—	24,495,368	24,610,677	24,495,368	24,610,677
Infrastructure	32,574,810	23,974,039	—	—	32,574,810	23,974,039
Furniture and equipment	148,510	170,776	6,654	21,387	155,164	192,163
Vehicles, machinery and equipment	4,871,269	3,318,809	1,254,076	1,328,309	6,125,345	4,647,118
Assets under capital lease	833,918	1,735,378	—	36,495	833,918	1,771,873
Construction in progress	<u>13,001,435</u>	<u>14,468,985</u>	<u>1,836,747</u>	<u>1,114,623</u>	<u>14,838,182</u>	<u>15,583,608</u>
Total Capital Assets	<u>\$ 107,904,170</u>	<u>\$ 98,004,580</u>	<u>\$ 88,921,903</u>	<u>\$ 89,707,556</u>	<u>\$ 196,826,073</u>	<u>\$ 187,712,136</u>

Major capital assets events during the current fiscal year included the following:

- Continued construction of turning lane improvements along the San Marnan corridor.
- Completion of a storm drainage culvert at Hanna Boulevard and Rainbow Drive (\$720,258).
- Significant investments in street reconstruction and overlay programs funded with local option taxes were made (\$5,549,124).
- Major renovations (\$1,655,454) to the Five Sullivan Brothers Convention Center were completed.
- Major renovations to the Airport Terminal facility were substantially completed.
- Vehicles and equipment for a number of city departments were replaced (\$1,839,184).

Additional information about the City of Waterloo's capital assets can be found in note 6 of this report.

Long-term debt. At the end of the current fiscal year, the City of Waterloo had total bonded debt outstanding of \$92,770,000. Of this amount, \$72,900,000 is comprised of debt backed by the full faith and credit of the government. The remainder of the City of Waterloo's bonded debt (\$19,870,000) represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

The City has incurred other debt to construct Ridgeway Towers, purchase land in the City's industrial parks and complete, as well as to purchase equipment using capital leases. The City has obligations to employees for benefit time not used at fiscal year end. During the fiscal year the balance due on these obligations decreased by \$200,792.

City of Waterloo Outstanding Debt

Bonded Debt:	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$ 59,290,000	\$ 55,270,000	\$ 13,610,000	\$ 12,890,000	\$ 72,900,000	\$ 68,160,000
Revenue bonds	—	—	19,870,000	21,940,000	19,870,000	21,940,000
Total Bonded Debt	<u>\$ 59,290,000</u>	<u>\$ 55,270,000</u>	<u>\$ 33,480,000</u>	<u>\$ 34,830,000</u>	<u>\$ 92,770,000</u>	<u>\$ 90,100,000</u>
Other Debt:						
Loans and notes	\$ 1,603,114	\$ 1,509,779	\$ —	\$ —	\$ 1,603,114	\$ 1,509,779
Capital lease obligations	339,514	315,512	—	25,304	339,514	340,816
Deferred compensation	565,843	589,378	—	—	565,843	589,378
Compensated absences	1,691,538	1,960,828	—	—	1,691,538	1,960,828
Total Other Debt	<u>\$ 4,200,009</u>	<u>\$ 4,375,497</u>	<u>\$ —</u>	<u>\$ 25,304</u>	<u>\$ 4,200,009</u>	<u>\$ 4,400,801</u>
Total Debt Outstanding	<u>\$ 63,490,009</u>	<u>\$ 59,645,497</u>	<u>\$ 33,480,000</u>	<u>\$ 34,855,304</u>	<u>\$ 96,970,009</u>	<u>\$ 94,500,801</u>

The City of Waterloo's total debt decreased by \$2,469,208 (2.6%) during the current fiscal year.

The government issued general obligation bonds in the amount of \$13,570,000 during the fiscal year, including general obligation refunding bonds issued to take advantage of more favorable interest rates. The government refinanced \$2,635,000 of its Series 1996 General Obligation bonds. Capital loan notes in the amount of \$330,000 were also issued for the repayment of accumulated sick leave payments to employees. Capital leases totaling \$436,266 were entered into for the purchase of various equipment for the Leisure Services department.

The City of Waterloo maintains an A2 rating from Moody's Investor Services, Inc. for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to five percent of its total assessed valuation. The current debt limitation for the City of Waterloo is \$121,093,664, which is significantly in excess of the City of Waterloo's outstanding general obligation debt (\$72,900,000) and other debt subject to the debt limitation (\$2,743,160).

Additional information about the City of Waterloo's long-term debt can be found in Note 9 of this report.

Economic Factors and Next Year's Budgets and Rates

- Property taxes provide approximately 51% of General Fund revenues. Over the past five years, citywide assessed valuations have risen an average of 3.3%, while property tax limitations imposed by the State of Iowa have held taxable values to an average annual growth rate of 2.3%. The fiscal year 2005 budget reflects total property tax revenue growth of 8.6%.
- Personnel costs make up a significant portion of City operating costs. Wage increases identified in contractual bargaining agreements are 3.5% for fiscal year 2005.
- The City continues to face the challenge of funding the increasing costs of employee health care. As part of the last collective bargaining agreements that were signed, the City signed a health insurance contract as well, requiring premium increases of approximately 14% for fiscal year 2005.

These factors were considered in preparing the City of Waterloo's budget for fiscal year 2005.

Requests for Information

This financial report is designed to provide a general overview of the City of Waterloo's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Michelle C. Weidner, Chief Financial Officer, City of Waterloo, 715 Mulberry Street, Waterloo, IA 50703.

Statement of Net Assets

At June 30, 2004

	Governmental Activities	Business- Type Activities	Total	Component Unit
Assets				
Current Assets				
Cash and cash equivalents	\$ 31,662,371	\$ 4,832,828	\$ 36,495,199	\$ 926,128
Investments	426,799	—	426,799	557,477
Receivables				
Customer accounts, net of allow- ance for uncollectible accounts.....	340,326	2,883,988	3,224,314	601,576
Property Taxes				
Delinquent.....	147,605	—	147,605	—
Succeeding year	33,842,995	—	33,842,995	—
Internal accounts.....	(1,097,119)	1,097,119	—	—
Due From Other Governments				
Component unit	—	856,496	856,496	—
Other	6,998,448	1,092,575	8,091,023	—
Accrued interest	—	—	—	3,104
Loans and notes.....	—	31,584	31,584	11,417
Special assessments	—	4,405	4,405	—
Inventories and prepaids	834,023	10,415	844,438	41,246
Total Current Assets	<u>73,155,448</u>	<u>10,809,410</u>	<u>83,964,858</u>	<u>2,140,948</u>
Noncurrent Assets				
Internal accounts	(379,868)	379,868	—	—
Restricted Assets				
Cash and cash equivalents	—	1,743,000	1,743,000	—
Investments.....	—	—	—	432,523
Loans and notes (net of allowance for uncollectible amounts)	413,101	—	413,101	98,570
Special assessments.....	247,122	—	247,122	—
Debt issue costs (net of accumulated amortization)	—	218,139	218,139	10,983
Capital assets (net of accumulated depreciation)	67,581,681	86,805,672	154,387,353	16,830,036
Capital assets not being depreciated	40,322,489	2,116,231	42,438,720	495,789
Total Noncurrent Assets	<u>108,184,525</u>	<u>91,262,910</u>	<u>199,447,435</u>	<u>17,867,901</u>
Total Assets	<u>\$ 181,339,973</u>	<u>\$ 102,072,320</u>	<u>\$ 283,412,293</u>	<u>\$ 20,008,849</u>

See accompanying notes to the financial statements.

Statement of Net Assets

At June 30, 2004

	Governmental Activities	Business- Type Activities	Total	Component Unit
Liabilities				
Current Liabilities				
Accounts and retainages payable	\$ 2,487,308	\$ 446,302	\$ 2,933,610	\$ 96,162
Accrued liabilities and other.....	1,965,114	527,719	2,492,833	188,539
Due to primary government.....	—	—	—	889,194
Due to other governments.....	—	—	—	55,639
Short-term general obligation bonds ..	330,000	—	330,000	—
Current maturities of long-term obligations	6,600,424	2,730,000	9,330,424	215,427
Deferred revenue - succeeding year property taxes	33,842,993	—	33,842,993	—
Total Current Liabilities	<u>45,225,839</u>	<u>3,704,021</u>	<u>48,929,860</u>	<u>1,444,961</u>
Noncurrent Liabilities				
Customer deposits and advances	—	247,000	247,000	110,023
Capital lease obligations.....	157,024	—	157,024	46,998
Special revenue bonds and notes	—	17,555,229	17,555,229	551,409
General obligation bonds and notes...	53,220,000	12,954,231	66,174,231	—
Other loans and notes	1,456,314	—	1,456,314	—
Compensated absences.....	2,056,247	—	2,056,247	—
Total Noncurrent Liabilities	<u>56,889,585</u>	<u>30,756,460</u>	<u>87,646,045</u>	<u>708,430</u>
Total Liabilities	<u>102,115,424</u>	<u>34,460,481</u>	<u>136,575,905</u>	<u>2,153,391</u>
Net Assets				
Invested in capital assets, net of related debt	46,671,542	55,900,582	102,572,124	16,180,354
Restricted for				
Debt service	1,202,857	3,640,837	4,843,694	322,500
Improvements	18,471,033	2,445,858	20,916,891	—
Provider designations.....	8,153,777	—	8,153,777	—
Unrestricted	4,725,340	5,624,562	10,349,902	1,352,604
Total Net Assets	<u>79,224,549</u>	<u>67,611,839</u>	<u>146,836,388</u>	<u>17,855,458</u>
Total Liabilities and Net Assets	<u>\$ 181,339,973</u>	<u>\$ 102,072,320</u>	<u>\$ 283,412,293</u>	<u>\$ 20,008,849</u>

See accompanying notes to the financial statements.

Statement of Activities

Year Ended June 30, 2004

Programs/Functions	Program Revenue				Program Revenue Capital Grants and Contributions	Net (Expenses), Revenue and Changes in Net Assets			Component Unit
	Direct Expenses	Charges for Services	Indirect Allocations	Operating Grants and Contributions		Primary Government		Total	
						Governmental Activities	Business- Type Activities		
Primary Government									
Governmental Activities									
Public safety	\$ 20,214,741	\$ 1,159,259	\$ —	\$ 916,343	\$ 15,600	\$ (18,123,539)	\$ —	\$ (18,123,539)	\$ —
Public works	14,281,994	1,688,900	(547,500)	5,738,002	4,012,303	(3,390,289)	—	(3,390,289)	—
Health and social services.....	514,033	2,241	75,000	164,015	—	(272,777)	—	(272,777)	—
Culture and recreation.....	6,711,952	2,073,891	590,000	383,342	—	(3,664,719)	—	(3,664,719)	—
Community and economic development	10,944,399	—	669,567	9,311,875	471,845	(491,112)	—	(491,112)	—
General government.....	3,574,962	55,400	639,000	17,996	—	(2,862,566)	—	(2,862,566)	—
Interest on long-term debt	2,410,195	31,813	—	—	48,724	(2,329,658)	—	(2,329,658)	—
Total Governmental Activities	58,652,276	5,011,504	1,426,067	16,531,573	4,548,472	(31,134,660)	—	(31,134,660)	—
Business-Type Activities									
Sanitary sewer.....	7,958,899	9,585,766	(688,000)	—	483,456	—	1,422,323	1,422,323	—
Sanitation.....	2,182,223	3,072,299	(738,067)	274,988	—	—	426,997	426,997	—
Total Business-Type Activities	10,141,122	12,658,065	(1,426,067)	274,988	483,456	—	1,849,320	1,849,320	—
Total Primary Government	\$ 68,793,398	\$ 17,669,569	\$ —	\$ 16,806,561	\$ 5,031,928	(31,134,660)	1,849,320	(29,285,340)	—
Component Unit - Water	\$ 3,377,152	\$ 3,687,661	\$ —	\$ —	\$ 60,554	—	—	—	371,063
General Revenue, Gains and Transfers									
Taxes									
Property taxes levied for general purposes.....						23,949,802	—	23,949,802	—
Property taxes levied for debt service						7,743,121	—	7,743,121	—
Other taxes.....						9,725,075	—	9,725,075	—
Investment earnings						661,458	78,470	739,928	43,680
Service provided to the City of Waterloo at no charge						—	—	—	(113,209)
Miscellaneous.....						3,073,954	—	3,073,954	88,972
Gains (losses) on dispositions of property and equipment.....						116,629	(34,206)	82,423	(4,388)
Transfers						12,613	(12,613)	—	—
Total General Revenue, Gains and Transfers						45,282,652	31,651	45,314,303	15,055
Change in Net Assets.....						14,147,992	1,880,971	16,028,963	386,118
Net Assets - Beginning of Year, as previously reported						63,944,254	65,455,880	129,400,134	17,469,340
Prior period adjustments (Note 18).....						1,132,303	274,988	1,407,291	—
Net Assets - Beginning of Year, as restated.....						65,076,557	65,730,868	130,807,425	17,469,340
Net Assets - End of Year.....						\$ 79,224,549	\$ 67,611,839	\$ 146,836,388	\$ 17,855,458

Balance Sheet - Governmental Funds

At June 30, 2004

	General Fund	Employee Benefits Fund	Local Option Tax Fund	General Obligation Debt Service Fund	Other Governmental Funds	Total
Assets						
Cash and cash equivalents	\$ 5,811,473	\$ 263,875	\$ 4,505,095	\$ 515,726	\$ 18,766,181	\$ 29,862,350
Investments	—	—	—	—	426,799	426,799
Receivables						
Customer accounts (net of allowance for uncollectible accounts)	318,118	—	—	—	—	318,118
Property Taxes						
Delinquent.....	47,252	49,535	—	50,818	—	147,605
Succeeding year	15,615,083	8,405,367	—	7,219,201	2,603,344	33,842,995
Special assessments.....	247,122	—	—	—	—	247,122
Loans and notes	228,537	—	—	—	184,564	413,101
Due from other funds	1,648,118	—	—	86,276	503,413	2,237,807
Due from Other Governments						
Federal	50,121	—	—	—	2,351,031	2,401,152
Iowa	119,270	—	1,760,806	—	2,128,155	4,008,231
Other.....	198,813	93,690	—	98,210	18,354	409,067
Inventories and prepaids..	461,875	—	—	—	372,148	834,023
Restricted Assets						
Cash and cash equivalents	1,657,366	—	—	55,086	87,569	1,800,021
Receivables	22,208	—	—	—	—	22,208
Due from other governments	179,998	—	—	—	—	179,998
Total Assets	<u>\$ 26,605,354</u>	<u>\$ 8,812,467</u>	<u>\$ 6,265,901</u>	<u>\$ 8,025,317</u>	<u>\$ 27,441,558</u>	<u>\$ 77,150,597</u>

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

At June 30, 2004

	General Fund	Employee Benefits Fund	Local Option Tax Fund	General Obligation Debt Service Fund	Other Governmental Funds	Total
Liabilities and Fund Balances						
Liabilities						
Accounts payable.....	\$ 644,878	\$ 9,862	\$ 360,123	\$ 13,701	\$ 1,007,270	\$ 2,035,834
Retainages payable	—	—	86,896	—	197,201	284,097
Accrued liabilities	561,563	73,722	8,392	—	118,529	762,206
Due to other funds.....	—	—	—	—	3,334,926	3,334,926
Deferred revenue	16,185,237	8,454,902	537,612	7,270,017	5,691,181	38,138,949
Compensated absences	658,921	—	11,037	—	187,497	857,455
General obligation bonds	330,000	—	—	—	—	330,000
Advances from other funds	—	—	—	—	379,868	379,868
Payable From Restricted Assets						
Accounts, contracts and retainages	167,377	—	—	—	—	167,377
Customer deposits and advances.....	—	—	—	—	140,214	140,214
Total Liabilities	<u>18,547,976</u>	<u>8,538,486</u>	<u>1,004,060</u>	<u>7,283,718</u>	<u>11,056,686</u>	<u>46,430,926</u>
Fund Balances						
Reserved for						
Inventories and prepaids	461,875	—	—	—	14,006	475,881
Donor specifications	672,161	—	—	—	—	672,161
Tourism promotion.....	272,042	—	—	—	—	272,042
Public access television	193,074	—	—	—	—	193,074
Airport	—	—	—	55,086	—	55,086
Housing	507,534	—	—	—	—	507,534
Reserved for improvements	—	—	—	—	82,957	82,957
Unreserved						
Designated for						
Vision Iowa	1,666,703	—	—	—	—	1,666,703
Uninsured workers compensation.....	500,000	—	—	—	—	500,000
Undesignated	3,783,989	273,981	5,261,841	686,513	—	10,006,324
Undesignated, Reported in Nonmajor						
Special revenue funds	—	—	—	—	4,237,450	4,237,450
TIF debt service fund ..	—	—	—	—	615,679	615,679
Capital project funds ...	—	—	—	—	11,434,780	11,434,780
Total Fund Balances	<u>8,057,378</u>	<u>273,981</u>	<u>5,261,841</u>	<u>741,599</u>	<u>16,384,872</u>	<u>30,719,671</u>
Total Liabilities and Fund Balances	<u>\$ 26,605,354</u>	<u>\$ 8,812,467</u>	<u>\$ 6,265,901</u>	<u>\$ 8,025,317</u>	<u>\$ 27,441,558</u>	<u>\$ 77,150,597</u>

See accompanying notes to the financial statements.

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets

At June 30, 2004

Total Fund Balances for Governmental Funds (Page 20).....	\$ 30,719,671
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds	107,904,170
Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds	4,295,956
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	
Capital lease obligations	(339,514)
General obligation bonds and notes.....	(59,290,000)
Other loans and notes	(1,603,114)
Compensated absences.....	(2,257,381)
Accrued interest payable.....	<u>(205,239)</u>
 Net Assets of Governmental Activities (Page 16)	 <u>\$ 79,224,549</u>

Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2004

	General Fund	Employee Benefits Fund	Local Option Tax Fund	General Obligation Debt Service Fund	Other Govern- mental Funds	Total
Revenue						
Property taxes.....	\$ 14,402,507	\$ 7,266,202	\$ —	\$ 7,737,289	\$ 2,320,883	\$ 31,726,881
Other taxes.....	1,379,822	—	7,807,641	—	—	9,187,463
Licenses and permits.....	1,142,650	—	—	—	9,065	1,151,715
Use of money and property.....	461,170	18,765	33,709	129,621	90,614	733,879
Intergovernmental.....	1,298,209	—	50,131	86,364	18,528,972	19,963,676
Charges for services.....	5,245,846	—	—	79,808	465,527	5,791,181
Interfund charges for service ..	1,986,780	—	—	—	685,000	2,671,780
Special assessments.....	109,999	—	—	—	—	109,999
Miscellaneous.....	2,197,384	—	54,236	—	84,961	2,336,581
Total Revenue.....	<u>28,224,367</u>	<u>7,284,967</u>	<u>7,945,717</u>	<u>8,033,082</u>	<u>22,185,022</u>	<u>73,673,155</u>
Expenditures						
Current						
Public safety.....	17,616,592	2,244,969	—	—	219,653	20,081,214
Public works.....	1,292,347	—	6,140,452	—	9,689,046	17,121,845
Health and social services....	517,555	—	—	—	—	517,555
Culture and recreation.....	6,057,464	—	—	—	448,659	6,506,123
Community and economic development.....	2,648,903	—	—	—	9,317,694	11,966,597
General government.....	3,429,588	71,443	—	—	—	3,501,031
Debt Service						
Principal.....	—	—	—	6,117,389	354,217	6,471,606
Interest and fees.....	—	—	—	2,391,980	32,633	2,424,613
Capital projects.....	—	—	—	—	7,820,334	7,820,334
Total Expenditures.....	<u>31,562,449</u>	<u>2,316,412</u>	<u>6,140,452</u>	<u>8,509,369</u>	<u>27,882,236</u>	<u>76,410,918</u>
Revenue Over (Under) Expenditures.....	<u>(3,338,082)</u>	<u>4,968,555</u>	<u>1,805,265</u>	<u>(476,287)</u>	<u>(5,697,214)</u>	<u>(2,737,763)</u>
Other Financing Sources (Uses)						
Operating transfers in.....	5,276,000	—	—	1,051,480	898,951	7,226,431
Operating transfers out.....	(332,433)	(4,891,000)	(541,312)	(385,000)	(1,064,073)	(7,213,818)
Proceeds from sale of assets	197,945	—	—	—	—	197,945
Capital lease obligations incurred.....	436,266	—	—	—	—	436,266
Refunding bonds issued.....	—	—	—	2,705,000	—	2,705,000
Payment to refunded bond escrow agent.....	—	—	—	(2,648,652)	—	(2,648,652)
Long-term bonds issued.....	—	—	—	—	10,150,000	10,150,000
Bond discounts and issue costs.....	—	—	—	(3,273)	(145,670)	(148,943)
Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>2,239,696</u>	<u>77,555</u>	<u>1,263,953</u>	<u>243,268</u>	<u>4,141,994</u>	<u>7,966,466</u>
Fund Balance - Beginning of Year.....	<u>5,817,682</u>	<u>196,426</u>	<u>3,997,888</u>	<u>498,331</u>	<u>12,242,878</u>	<u>22,753,205</u>
Fund Balance - End of Year .	<u>\$ 8,057,378</u>	<u>\$ 273,981</u>	<u>\$ 5,261,841</u>	<u>\$ 741,599</u>	<u>\$ 16,384,872</u>	<u>\$ 30,719,671</u>

See accompanying notes to the financial statements.

Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities

Year Ended June 30, 2004

Changes in Fund Balances - Total Governmental Funds
(Page 22) **\$ 7,966,466**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or construct capital assets are reported in the governmental funds as expenditures. However, those costs are reported in the statement of net assets and are allocated over their estimated useful lives as depreciation expense in the statement of activities. The amounts of capital outlay and depreciation expense for the year are as follows:

Capital outlay.....	\$ 13,314,367	
Depreciation expense.....	<u>(3,333,461)</u>	9,980,906

Beginning of year capital assets removed from service are not reported in the governmental funds but reduce net assets. Items removed are as follows:

Cost of land sold.....	\$ (77,236)	
Net book value of depreciable assets sold or scrapped.....	<u>(4,080)</u>	(81,316)

The issuance of long-term debt provides current financial resources to governmental funds while repayment of the principal of long-term debt consumes current financial resources. These transactions have no effect on the change in net assets in the statement of activities. In addition, interest is accrued on outstanding debt in the statement of activities whereas in the governmental funds an interest expenditure is reported only when due. The following is a detail of the net effect on these differences in the treatment of long-term debt and related items:

General obligation bonds issued for governmental purposes.....	\$ (9,765,000)	
General obligation bonds issued for refunding purposes....	(2,705,000)	
General obligation bonds repaid	5,815,000	
General obligation bonds refunded	2,635,000	
Other long-term debt issued.....	(1,078,099)	
Other long-term debt repaid	1,202,214	
Change in accrued interest	<u>11,875</u>	(3,884,010)

Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the governmental funds.....		<u>165,946</u>
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Change in Net Assets of Governmental Activities (Page 18) **\$ 14,147,992**

Balance Sheets - Enterprise Funds

At June 30, 2004

	<u>Major</u> <u>Sanitary Sewer</u>	<u>Nonmajor</u> <u>Sanitation</u>	<u>Total</u>
Current Assets			
Cash	\$ 973,574	\$ 788,633	\$ 1,762,207
Receivables			
Customer accounts	2,167,099	716,889	2,883,988
Special assessments	4,405	—	4,405
Loans and notes.....	31,584	—	31,584
Due from other funds.....	1,098,633	—	1,098,633
Due from Other Governments			
Waterloo Water Works	562,771	293,725	856,496
Other	5,273	283,684	288,957
Inventories and prepaids	10,415	—	10,415
Total Current Assets	<u>4,853,754</u>	<u>2,082,931</u>	<u>6,936,685</u>
Noncurrent Assets			
Advances to other funds.....	379,868	—	379,868
Restricted Assets			
Cash.....	4,740,121	73,500	4,813,621
Due from other governments	803,618	—	803,618
Capital assets (net of accumulated depreciation)	85,875,342	930,330	86,805,672
Capital assets not being depreciated	2,116,231	—	2,116,231
Bond issue costs (net of accumulated amortization - \$396,058)	218,139	—	218,139
Total Noncurrent Assets	<u>94,133,319</u>	<u>1,003,830</u>	<u>95,137,149</u>
Total Assets	<u>\$ 98,987,073</u>	<u>\$ 3,086,761</u>	<u>\$ 102,073,834</u>
Liabilities and Net Assets			
Current Liabilities			
Accounts payable	\$ 195,432	\$ 96,443	\$ 291,875
Retainages payable.....	9,873	—	9,873
Accrued liabilities.....	134,128	16,749	150,877
Due to other funds.....	1,514	—	1,514
Current maturities of long-term debt.....	2,372,500	—	2,372,500
Compensated absences.....	156,063	17,985	174,048
Total Current Liabilities	<u>2,869,510</u>	<u>131,177</u>	<u>3,000,687</u>
Noncurrent Liabilities			
Payable From Restricted Assets			
Accounts, contracts and retainages	144,554	—	144,554
Customer deposits and advances.....	173,500	73,500	247,000
Accrued interest	202,794	—	202,794
Revenue bonds	357,500	—	357,500
Long-Term Debt			
General obligation bonds	12,954,231	—	12,954,231
Revenue bonds	17,555,229	—	17,555,229
Total Noncurrent Liabilities	<u>31,387,808</u>	<u>73,500</u>	<u>31,461,308</u>
Total Liabilities.....	<u>34,257,318</u>	<u>204,677</u>	<u>34,461,995</u>
Net Assets			
Invested in capital assets, net of related debt	54,970,252	930,330	55,900,582
Restricted for debt service.....	3,640,837	—	3,640,837
Restricted for improvements.....	2,445,858	—	2,445,858
Unrestricted	3,672,808	1,951,754	5,624,562
Total Net Assets.....	<u>64,729,755</u>	<u>2,882,084</u>	<u>67,611,839</u>
Total Liabilities and Net Assets	<u>\$ 98,987,073</u>	<u>\$ 3,086,761</u>	<u>\$ 102,073,834</u>

See accompanying notes to the financial statements.

Statement of Revenue, Expenses and Changes in Fund Net Assets - Enterprise Funds

Year Ended June 30, 2004

	<u>Major</u> <u>Sanitary Sewer</u>	<u>Nonmajor</u> <u>Sanitation</u>	<u>Total</u>
Operating Revenue			
Charges for sales and service	<u>\$ 9,585,766</u>	<u>\$ 3,072,299</u>	<u>\$ 12,658,065</u>
Operating Expenses			
Salaries and employee benefits	1,765,180	726,222	2,491,402
Contractual services	2,287,064	1,678,448	3,965,512
Commodities	393,181	280,336	673,517
Depreciation	<u>2,144,192</u>	<u>234,983</u>	<u>2,379,175</u>
Total Operating Expenses	<u>6,589,617</u>	<u>2,919,989</u>	<u>9,509,606</u>
Operating Income (Loss)	<u>2,996,149</u>	<u>152,310</u>	<u>3,148,459</u>
Nonoperating Revenue (Expenses)			
Interest income	67,784	10,686	78,470
Intergovernmental	—	274,988	274,988
Interest expense	(2,015,751)	(301)	(2,016,052)
Amortization of bond issue costs	(41,531)	—	(41,531)
Loss on disposition of equipment	<u>(6,424)</u>	<u>(27,782)</u>	<u>(34,206)</u>
Total Nonoperating Revenue (Expenses)	<u>(1,995,922)</u>	<u>257,591</u>	<u>(1,738,331)</u>
Change in Net Assets Before Contributions and Transfers	1,000,227	409,901	1,410,128
Capital contributions - federal construction grant	483,456	—	483,456
Operating transfers out	<u>(12,613)</u>	<u>—</u>	<u>(12,613)</u>
Change in Net Assets	<u>1,471,070</u>	<u>409,901</u>	<u>1,880,971</u>
Net Assets - Beginning of Year, as previously reported	63,258,685	2,197,195	65,455,880
Prior period adjustment	—	274,988	274,988
Net Assets - Beginning of Year, as restated	<u>63,258,685</u>	<u>2,472,183</u>	<u>65,730,868</u>
Net Assets - End of Year	<u>\$ 64,729,755</u>	<u>\$ 2,882,084</u>	<u>\$ 67,611,839</u>

See accompanying notes to the financial statements.

Statement of Cash Flows - Enterprise Funds

Year Ended June 30, 2004

	<u>Major</u> <u>Sanitary Sewer</u>	<u>Nonmajor</u> <u>Sanitation</u>	<u>Total</u>
Cash Flows From Operating Activities			
Receipts from customers and users	\$ 10,177,783	\$ 3,006,304	\$ 13,184,087
Payments to suppliers	(2,274,444)	(1,236,541)	(3,510,985)
Payments to or on behalf of employees	(1,737,426)	(719,559)	(2,456,985)
Payment for interfund services used	(688,000)	(738,067)	(1,426,067)
Net Cash Provided By Operating Activities.....	<u>5,477,913</u>	<u>312,137</u>	<u>5,790,050</u>
Cash Flows From Noncapital Financing Activities			
Operating grant.....	—	274,988	274,988
Transfers to other funds	(12,613)	—	(12,613)
Net Cash Provided By (Used in) Noncapital Financing Activities	<u>(12,613)</u>	<u>274,988</u>	<u>262,375</u>
Cash Flows From Capital and Related Financing Activities			
Proceeds from debt	3,237	—	3,237
Payment of debt issue costs.....	13,980	—	13,980
Capital grants	301,273	—	301,273
Purchase and construction of capital assets	(1,526,424)	(315,874)	(1,842,298)
Principal paid on debt.....	(2,463,688)	(11,616)	(2,475,304)
Interest paid on debt.....	(1,953,243)	(301)	(1,953,544)
Net Cash Used in Capital and Related Financing Activities	<u>(5,624,865)</u>	<u>(327,791)</u>	<u>(5,952,656)</u>
Cash Flows From Investing Activities			
Collection of notes and special assessments.....	8,642	—	8,642
Interest received.....	67,784	10,686	78,470
Net Cash Provided By Investing Activities.....	<u>76,426</u>	<u>10,686</u>	<u>87,112</u>
Net Increase (Decrease) in Cash.....	<u>(83,139)</u>	<u>270,020</u>	<u>186,881</u>
Cash at Beginning of Year.....	5,796,834	592,113	6,388,947
Cash at End of Year.....	<u>\$ 5,713,695</u>	<u>\$ 862,133</u>	<u>\$ 6,575,828</u>
Reconciliation of Operating Income to Net Cash Provided By Operating Activities			
Operating income	\$ 2,996,149	\$ 152,310	\$ 3,148,459
Adjustments to Reconcile Income From Operations to Net Cash Provided By Operating Activities			
Depreciation	2,144,192	234,983	2,379,175
(Increase) decrease in accounts receivable.....	367,533	(12,921)	354,612
(Increase) in due from other governments	(32,864)	(53,074)	(85,938)
(Increase) decrease in inventories and prepaids	(4,090)	5,880	1,790
Increase (decrease) in accounts payable	43,865	(10,138)	33,727
Increase (decrease) in accrued liabilities	(51,984)	4,829	(47,155)
Increase in due to other funds.....	(6,391)	(11,401)	(17,792)
Increase (decrease) in compensated absences ..	21,503	1,669	23,172
Net Cash Provided by Operating Activities	<u>\$ 5,477,913</u>	<u>\$ 312,137</u>	<u>\$ 5,790,050</u>

See accompanying notes to the financial statements.

Statement of Cash Flows - Enterprise Funds

Year Ended June 30, 2004

	<u>Major</u> <u>Sanitary Sewer</u>	<u>Nonmajor</u> <u>Sanitation</u>	Total
Schedule of Noncash Investing and Financing Activities			
Loss on Disposition of Equipment	\$ <u>6,424</u>	\$ <u>27,782</u>	\$ <u>34,206</u>
Grants Receivable	\$ <u>(483,456)</u>	\$ <u>(274,988)</u>	\$ <u>(758,444)</u>
Payables for Acquisition of Capital Assets	\$ <u>201,155</u>	\$ <u>—</u>	\$ <u>201,155</u>
Amortization of Bond Issue Costs	\$ <u>41,531</u>	\$ <u>—</u>	\$ <u>41,531</u>
Amortization of Discounts and Reacquisition Costs	\$ <u>78,198</u>	\$ <u>—</u>	\$ <u>78,198</u>
Accrual of Interest Expense	\$ <u>256,338</u>	\$ <u>—</u>	\$ <u>256,338</u>

Statement of Fiduciary Net Assets - CEBA Agency Fund ---

At June 30, 2004

Assets	
Notes and Forgivable Notes Receivable	<u>\$ 170,300</u>
Liabilities and Net Assets	
Notes and Forgivable Notes Payable	\$ 170,300
Net Assets	<u>—</u>
Total Liabilities and Net Assets	<u>\$ 170,300</u>

Index to the Notes to the Financial Statements

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Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

The significant accounting policies followed in the preparation of these financial statements are summarized below.

Reporting Entity

The City of Waterloo (City) is a political subdivision of the State of Iowa located in Black Hawk County. It was incorporated in 1868 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the full-time Mayor and seven part-time City Council members elected on a nonpartisan basis. The Mayor is elected for a two-year term. City Council members from five wards plus two at-large are elected for staggered four-year terms. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides sanitary sewer and sanitation (garbage pick up) utilities for its citizens. Through its component unit, Waterloo Water Works, water utility services are also provided.

For financial reporting purposes, the City has included all funds, organizations, account groups, agencies, boards, commissions, authorities and material component units. The City 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 City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City 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 City.

These financial statements present the City of Waterloo (the primary government) and its discretely presented component unit, the Waterloo Water Works. Complete financial statements of the Waterloo Water Works component unit can be obtained from the Waterloo Water Works administrative office, 325 Sycamore Street, Waterloo, Iowa.

Blended Component Unit

The Waterloo Housing Authority (Authority) is governed by a board that includes all seven members of the City Council plus two members appointed by the Mayor, subject to approval of a majority of the City Council, for a total of nine members. Although the Authority is considered legally separate from the City, it receives administrative support from the various departments within the City's General Fund. Due to the nature of its relationship with the City, the Authority is considered part of the primary government. The Authority is reported as a special revenue fund.

Discrete Component Unit

The Waterloo Water Works is a component unit that is legally separate from the City, but is financially accountable to the City. The Waterloo Water Works is governed by a three-member board appointed by the City Council and its operating budget is subject to the review of the City Council. The Waterloo Water Works operates on a calendar year end and prepares its financial statements in accordance with generally accepted accounting principles. Due to the different year end, the amount reported by the Waterloo Water Works as due to the primary government and the primary government's due from the Waterloo Water Works do not agree by \$32,698.

(1) Summary of Significant Accounting Policies

Basis of Presentation

Government-Wide Financial Statements

The statement of net assets and the statement of activities report information on all the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate Waterloo Water Works component unit.

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

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

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

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

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

Fund Financial Statements

Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major proprietary fund are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds. The other proprietary fund is reported in a separate column on the proprietary funds financial statements.

The City had the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenue and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid general operating expenses, the fixed charges and the capital improvement costs that are not paid from other funds.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

The Employee Benefits Special Revenue Fund is required by the Code of Iowa (known as the Trust and Agency Fund) to account for property taxes levied for employee benefits. This fund either pays benefits as expenditures (primarily police and fire pension costs) or transfers cash to the General Fund to reimburse allowable benefits paid therefrom.

The Local Option Tax Special Revenue Fund is used to account for resources provided from a 1% sales tax approved by the citizens of Waterloo which can only be used for the reconstruction and repair of City streets.

The General Obligation Debt Service Fund is required by the Code of Iowa to account for the accumulation of resources for, and payment of, debt service on general obligation long-term debt.

The City had the following major proprietary fund:

Enterprise Fund

The Sanitary Sewer Fund operates the sewage collection system and wastewater treatment plant.

Description of Funds

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, equity, revenue and expenditures or expenses, and other financing sources and uses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into categories as follows:

Governmental Fund Types

General fund is the general operating fund of the City. It is used to account for all financial resources except those accounted for in another fund.

Special revenue funds are used to account for proceeds of specific revenue sources (other than special assessments, expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt service funds are used to account for the accumulation of financial resources for, and the payment of, interest and principal on the City's long-term debt which is not paid by another fund.

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by another fund.

Proprietary Fund Type

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to that of a private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Fiduciary Fund Type

Agency funds generally are used to account for assets that the City holds on behalf of others as their agent. Agency Funds are custodial in nature and do not involve measurement of results of operations.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is 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 revenue in the year for which it is levied. Grants and similar items are recognized as revenue at the same time the related asset is recorded. For reimbursable grants, the asset is recorded as soon as all eligibility requirements imposed by the provider have been met.

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

Property tax, charges for services, intergovernmental revenue (shared revenue, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

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

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

The proprietary funds of the City apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue 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 City's enterprise funds are charges to customers for services. Operating expenses include the costs of services and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

The City maintains its financial records on a modified cash basis. Modifications to the cash basis include (a) recognizing revenue when billed through the City's accounts receivable system, (b) not recognizing revenue from cash received which was not billed through the City's accounts receivable system, (c) recording certain payroll liabilities, (d) recording revenue and expenditures from certain noncash transactions and (e) recording certain interfund due tos/froms for interfund activity. The financial statements of the City are prepared by making memorandum adjusting entries to the modified cash basis financial records.

Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Using prescribed procedures, the City amended its budget once during the year ended June 30, 2004 which increased appropriated disbursements by approximately \$46,700,000.

The City uses the same modified cash basis of accounting for budgetary reporting as is used for its financial records. Under this basis, cash transactions are modified by certain receivables, payables and noncash transactions.

Formal and legal budgetary control is based upon major classes of disbursements, known as programs or functions, not by fund. Programs/functions used by the City are Public Safety, Public Works, Health and Social Services, Culture and Recreation, Community and Economic Development, General Government, debt service, capital projects, business-type activities and nonprogram. Budgetary authority to spend is recorded as appropriations which expire at year end unless a continuing appropriation exists for long-term construction contracts. During the year ended June 30, 2004, disbursements for Health and Social Services exceeded the amount budgeted by \$1,216. The City does not record or report encumbrances.

Cash, Pooled Investments and Cash Equivalents

The cash balances of most City funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law. Investments consist of nonnegotiable certificates of deposit which are stated at cost.

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

Receivables and Payables

Receivables are reported net of any allowance for uncollectible accounts. The General Fund has an allowance for uncollectible customer accounts totaling \$443,686 at June 30, 2004.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Property taxes receivable are recognized on the levy or lien date, which is the date that the tax asking is certified by the City to the County Board of Supervisors. Current year delinquent property taxes receivable represent unpaid taxes from the current year. The succeeding year property taxes receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property taxes receivable have been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

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

Special assessments are levied against certain property owners and become liens against the property benefitted by the improvement. Special assessments receivable consist of current assessments which are due within one year, delinquent assessments remaining unpaid after the due date, and deferred, uncollected assessments which have been levied, but are not due within one year.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services, including amounts owed for which billings have not been prepared.

Loans and notes consist of amounts advanced to private individuals or organizations. Collections of revolving loan principal and interest are expected to be subsequently loaned to others. Collections of principal and interest from loans and notes made from federal funds are program income of the federal program.

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds."

Due from other governments consist of grants, shared revenue and amounts collected by the other government on behalf of the City.

Inventories and Prepaids

Inventories are valued at cost using the first-in/first-out (FIFO) method. The cost of governmental fund-type inventories are recorded as expenditures when purchased. Inventories and prepaids recorded in the governmental fund types do not reflect current appropriable resources; therefore, an equivalent portion of fund balance is reserved.

Prepaids consist primarily of July, 2004 housing assistance payments and health care premiums paid in advance.

(1) Summary of Significant Accounting Policies

Restricted Assets

Certain assets of the governmental funds are classified as restricted assets because their use is completely restricted by donors, contract or grant agreements.

Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "revenue, operations and maintenance" account is used to report resources set aside to subsidize potential deficiencies from the City's operation that could adversely affect debt service payments. The "revenue bond debt sinking" account is used to segregate resources accumulated for debt service payments over the next 12 months. The "revenue bond debt reserve" account is used to segregate 10% of the original face value of bond issues which are still outstanding to provide payments due if the "debt sinking" balance is not adequate. The "revenue bond improvements" account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements. The "project" account is used to report those proceeds of bond issuances that are restricted for use in construction.

Unamortized Bond Costs

Original issuance costs of general obligation bonds repaid by the sanitary sewer enterprise fund and sanitary sewer revenue bonds totaling \$614,197 are amortized using the effective interest method over the life of the bonds. Accumulated amortization at June 30, 2004 was \$396,058. Amortization of bond issue costs was \$41,531 for 2004.

Discount on Sanitary Sewer Bonds

Original discounts of \$431,166 on general obligation bonds repaid by the sanitary sewer enterprise fund and sanitary sewer revenue bond issues outstanding at June 30, 2004 are being amortized using the effective interest method over the life of the bonds. Accumulated amortization as of June 30, 2004 was \$270,586. Discount amortization for 2004, which was added to interest expense, was \$30,015.

Net Reacquisition Costs of Refunded Bonds

The reacquisition costs of \$503,574 and \$309,934, incurred as a result of the October, 1994 and June, 1996, respectively, sewer revenue bond refunding transactions, are being amortized over the lives of the refunding issues using the effective interest method. Accumulated amortization at June 30, 2004 was \$733,548. Reacquisition amortization for 2004, which was added to interest expense, was \$48,183.

Interest Capitalized

Construction period interest for business-type activities is capitalized. For projects paid with taxable bonds, interest is capitalized at the amount of cash paid at the effective interest rate to the earlier of the date the asset is placed in service or year end. Interest on tax-exempt debt used for construction is capitalized at the amount incurred, offset by earnings realized by investing debt proceeds until needed. No interest expense was capitalized during the year ended June 30, 2004.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Capital Assets

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset useful lives are not capitalized. Capital assets, other than infrastructure, are defined by the City as assets with an initial, individual cost in excess of \$5,000 and estimated useful lives in excess of one year and all computer equipment. Infrastructure is defined by the City as assets available for public use, having a cost of \$50,000 or more and having value only to the City. The City has not retroactively capitalized infrastructure assets. Under current accounting standards, the City has until the year ending June 30, 2007 to complete the capitalization of infrastructure assets. However, infrastructure projects from 2003 and 2004 are included in the government-wide financial statements. Because the infrastructure assets constructed prior to 2003 have not been capitalized, the debt related to infrastructure assets causes the reporting of capital assets net of related debt in the statement of net assets to be lower than it would if the infrastructure were capitalized. Depreciation is computed using the straight-line method over the estimated useful life of the asset with no amount recorded in the year placed in service and a full year in the year removed from service. Estimated useful lives are as follows:

Asset Class	Estimated Useful Lives
Primary Government	
Governmental Activities	
Buildings and improvements	10 - 40 Years
Infrastructure	15 - 40 Years
Furniture and equipment	3 - 20 Years
Vehicles, machinery and equipment.....	3 - 25 Years
Assets under capital lease.....	10 - 15 Years
Business-Type Activities	
Buildings	15 - 50 Years
Improvements other than buildings	50 Years
Furniture and equipment	5 - 20 Years
Vehicles, machinery and equipment.....	5 - 10 Years
Discretely Presented Component Unit	
Buildings and improvements	8 - 40 Years
Water supply and distribution systems	10 - 99 Years
Meters and equipment.....	5 - 63 Years
Machinery and equipment	5 - 26 Years

Deferred Revenue

Deferred revenue in the governmental funds represent receivables which are measurable, but not available and cash received which has not been earned.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Short-Term General Obligation Bonds

Annually, the City issues short-term general obligation bonds and records the proceeds, as well as the debt, in the General Fund. The debt is issued as reimbursement for payouts of frozen sick leave. During the following 12 months, the debt plus interest is repaid through the General Obligation Debt Service Fund. An operating transfer is used to transfer the liability from the General Fund to the General Obligation Debt Service Fund. During the year ended June 30, 2004, proceeds of \$330,000 were received and \$385,000 was repaid.

Compensated Absences

City ordinances and labor contracts with the City call for the accumulation of vacation, compensatory time and sick leave for subsequent use or for payment upon termination or retirement. During 2001, the City began offering an early sick leave payout option for certain employees. Qualifying employees can elect to receive 60% of the time in their frozen sick leave bank over a five-year period prior to their retirement or termination of employment. Vacation, compensatory time and sick pay are accrued when incurred in the government-wide and the proprietary funds statements and reported as a liability. Vacation pay that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it.

Long-Term Liabilities

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Fund Balance

Reservations of fund balance represent amounts that are not appropriated, are legally segregated for a specific purpose or are net assets that are limited by outside third-party restrictions. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets

Net assets represent the difference between assets and liabilities. Amounts reported as invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Notes to the Financial Statements

(2) Cash and Investments

The City's and its discretely presented component unit's (Waterloo Water Works) deposits at June 30, 2004 were entirely covered by federal depository insurance, National Credit Union insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure that there will be no loss of public funds.

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

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end.

Primary Government

The City's investments of \$426,799 at June 30, 2004 were all with the Iowa Public Agency Investment Trust.

Component Unit

The Waterloo Water Works' investments at its December 31, 2003 year end are shown below:

	Carrying Amount	Market Value
Certificates of deposit	\$ 990,000	\$ 990,000
Classified as restricted	<u>432,523</u>	<u>432,523</u>
Net	<u>\$ 557,477</u>	<u>\$ 557,477</u>

Investments in the Iowa Public Agency Investment Trust are valued at amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization. The City had no other investments subject to risk categorization.

(3) Leasing Activities

Airport

The Waterloo Municipal Airport has entered into various operating leases with airlines, fixed base operators, auto lease companies, the airport restaurant and hangar tenants. No minimum rentals were due under these leases at June 30, 2004.

Soccer Complex

The City leases 115.6 acres of real estate to the Cedar Valley Youth Soccer Association (Tenant) under an operating lease expiring August 2, 2013 for \$10 per year. The Tenant has the option to renew the lease for five ten-year renewals. The leased real estate was received from Deere & Company (Donor) under a Deed of Dedication which requires the real estate to be used as a soccer facility. If not used as a soccer facility, the real estate reverts to the Donor.

(3) Leasing Activities

Waterloo Civic Center Hotel Company, L.P.

The City has entered into a lease agreement with the Waterloo Civic Center Hotel Company, L.P. (WCC) for the use of City parking facilities. The term of the lease is from July 1, 1983 to June 30, 2013. The rental rates are based on 1% of the gross income and sales of the Five Sullivan Brothers Convention Center and/or the Ramada Inn Convention Center (Center) paid on a monthly basis. The City is also a party to a lease and management agreement with WCC for the management of the Center. The agreement expires December 31, 2013. The City is to receive commissions from 4.5% of the first \$1,000,000 on a sliding scale to 10% over \$4,000,000 of annually generated revenue. On September 27, 2004, the agreements were assigned from WCC to Hostmark Hospitality Group (Hostmark).

(4) Loans and Notes

General Fund

Rath/Urban Development Action Grant (UDAG) Loans

In prior years, the City received federal aid in the form of UDAGs to assist local businesses, including Rath Packing Company (Rath). Rath subsequently liquidated and the City received real estate and cash as a result of the liquidation. A portion of the cash has been loaned to local businesses to assist in their economic development.

Economic Development Revolving Loans - From time to time the City has made economic development loans with repayment terms ranging from 6 months to 15 years and interest ranging from zero to 9%.

Facade Loans - From time to time the City has made facade improvement loans to aid in improving the appearance of the downtown business district. Loans require principal and interest at rates ranging from 5% to 6.5% to be repaid monthly over five to seven-year terms.

Principal and interest received by the City on Rath/UDAG loans are recorded in the General Fund as use of money and property (Community and Economic Development Program).

Resolution Trust Corporation (RTC) Loans

The City has received real estate from RTC. These properties are being rehabilitated and sold to qualifying occupying owners. To assist in placing the properties, the City has sold property by contract.

Special Revenue Funds

Community Development Block Grant (CDBG) Loans

Low-Interest Loans - The City had 24 low-interest rehabilitation and other loans due at June 30, 2004. Of the total, 17 loans are being serviced by Union Planters Bank. Ten of the City-serviced loans, with a balance of \$25,563, are estimated to be uncollectible. Collections of CDBG loans are grant program income which is reported in the Special Revenue Fund (CDBG) as intergovernmental revenue. Amounts received as repayment will be grant program income as received.

Notes to the Financial Statements

(4) Loans and Notes

Forgivable Loans - The City, through its CDBG, provides forgivable rehabilitation loans to low-income households. The loans are forgiven on a sliding scale over a five-year period, provided the home is not sold. If the home is sold, the City's lien against the property prevents a clear title transfer unless the unforgiven portion of the note is satisfied. As of June 30, 2004 the City had made 1,389 such loans totaling \$12,513,274. The loans are not recorded as assets on the accompanying balance sheet or statement of net assets.

(5) Interfund Activity

The composition of interfund balances as of June 30, 2004 was as follows:

Due From/To	Interfund Receivables	Interfund Payables
General Fund.....	\$ 1,648,118	\$ —
Special Revenue Funds		
Community Development Block Grant.....	—	69,885
Road Use Tax.....	—	789
Housing Programs.....	—	5,664
Federal Projects.....	—	1,414,192
Federal Aviation Agency Projects.....	450,000	—
General Obligation Debt Service Fund.....	86,276	—
Capital Projects Funds		
June 2002 GO Bond.....	53,413	—
June 2003 GO Bond.....	—	450,000
June 2004 GO Bond.....	—	1,184,909
Rath Area Redevelopment.....	—	209,487
Enterprise Fund		
Sanitary Sewer.....	1,098,633	1,514
	<u>\$ 3,336,440</u>	<u>\$ 3,336,440</u>
Advance To/From		
Sanitary Sewer Fund.....	\$ 379,868	\$ —
TIF Debt Service.....	—	379,868
	<u>\$ 379,868</u>	<u>\$ 379,868</u>

Due to/from primary government and component units:

Due to Enterprise Funds

Sanitary Sewer.....	\$ 562,771
Sanitation.....	293,725
Due from Waterloo Water Works.....	856,496
Difference.....	32,698
Waterloo Water Works - Due to Primary Government.....	<u>\$ 889,194</u>

The difference in the above amounts of \$32,698 results from the different year ends of the entities as described in Note 1.

Notes to the Financial Statements

(5) Interfund Activity

Interfund Transfers

Operating Transfers

Transfer to	Transfer From	Amount
General Fund	Special Revenue	
	Employee Benefits	\$ 4,891,000
	Debt Service	
	General Obligation	385,000
General Obligation Debt Service	General Fund	51,480
	Debt Service	
	Nonmajor Governmental Funds	1,000,000
Nonmajor Special Revenue	Special Revenue	
	Nonmajor Governmental Funds	46,142
	Capital Projects	
	Nonmajor Governmental Funds	17,931
Nonmajor Capital Projects	General Fund	280,953
	Special Revenue	
	Local Option Tax	541,312
	Enterprise	
	Sanitary Sewer	<u>12,613</u>
Total		<u>\$ 7,226,431</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund expending the resources or are for other operating purposes.

(6) Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Balance - Beginning of Year (Restated - Note 18)	Increases	Decreases	Transfers	Balance - End of Year
Governmental Activities					
Capital Assets Not Being Depreciated					
Land.....	\$ 25,404,558	\$ 637,149	\$ 77,236	\$ —	\$ 25,964,471
Land held for redevelopment.....	—	1,356,583	—	—	1,356,583
Construction in progress	<u>14,468,985</u>	<u>9,532,416</u>	—	<u>(10,999,966)</u>	<u>13,001,435</u>
Total Capital Assets Not					
Being Depreciated.....	<u>39,873,543</u>	<u>11,526,148</u>	<u>77,236</u>	<u>(10,999,966)</u>	<u>40,322,489</u>

Notes to the Financial Statements

(6) Capital Assets

	Balance - Beginning of Year (Restated - Note 18)	Increases	Decreases	Transfers	Balance - End of Year
Governmental Activities					
Capital Assets Being Depreciated					
Buildings and improvements	\$ 59,546,458	\$ 226,244	\$ 3,397	\$ 1,655,454	\$ 61,424,759
Infrastructure	23,974,039	—	—	9,344,512	33,318,551
Furniture and equipment	655,719	38,666	50,709	—	643,676
Vehicles, machinery and equipment	12,475,531	1,093,043	673,218	2,052,281	14,947,637
Assets under capital lease	2,597,309	430,266	—	(2,052,281)	975,294
Total Capital Assets Being Depreciated	<u>99,249,056</u>	<u>1,788,219</u>	<u>727,324</u>	<u>10,999,966</u>	<u>111,309,917</u>
Less Accumulated Depreciation for					
Buildings and improvements	30,614,423	1,658,776	1,614	—	32,271,585
Infrastructure	—	743,741	—	—	743,741
Furniture and equipment	484,943	60,932	50,709	—	495,166
Vehicles, machinery and equipment	9,156,722	833,678	670,921	756,889	10,076,368
Assets under capital lease	861,931	36,334	—	(756,889)	141,376
Total Accumulated Depreciation...	<u>41,118,019</u>	<u>3,333,461</u>	<u>723,244</u>	<u>—</u>	<u>43,728,236</u>
Net Capital Assets Being Depreciated	<u>58,131,037</u>	<u>(1,545,242)</u>	<u>4,080</u>	<u>10,999,966</u>	<u>67,581,681</u>
Net Governmental Activities					
Capital Assets	<u>\$ 98,004,580</u>	<u>\$ 9,980,906</u>	<u>\$ 81,316</u>	<u>\$ —</u>	<u>\$ 107,904,170</u>
Business-Type Activities					
Capital Assets Not Being Depreciated					
Land	\$ 279,484	\$ —	\$ —	\$ —	\$ 279,484
Construction in progress	1,114,623	1,363,956	144,900	(496,932)	1,836,747
Total Capital Assets Not Being Depreciated	<u>1,394,107</u>	<u>1,363,956</u>	<u>144,900</u>	<u>(496,932)</u>	<u>2,116,231</u>
Capital Assets Being Depreciated					
Buildings	67,926,564	92,796	—	—	68,019,360
Improvements other than buildings	30,612,008	—	—	496,932	31,108,940
Furniture and equipment	241,289	—	62,581	—	178,708
Vehicles, machinery and equipment	4,718,242	315,875	261,219	324,915	5,097,813
Assets under capital lease	324,915	—	—	(324,915)	—
Total Capital Assets Being Depreciated	<u>103,823,018</u>	<u>408,671</u>	<u>323,800</u>	<u>496,932</u>	<u>104,404,821</u>
Less Accumulated Depreciation for					
Buildings	5,609,983	1,359,803	—	—	6,969,786
Improvements other than buildings	6,001,331	612,241	—	—	6,613,572
Furniture and equipment	219,902	8,532	56,380	—	172,054
Vehicles, machinery and equipment	3,389,933	366,776	233,215	320,243	3,843,737
Assets under capital lease	288,420	31,823	—	(320,243)	—
Total Accumulated Depreciation...	<u>15,509,569</u>	<u>2,379,175</u>	<u>289,595</u>	<u>—</u>	<u>17,599,149</u>
Net Capital Assets Being Depreciated	<u>88,313,449</u>	<u>(1,970,504)</u>	<u>34,205</u>	<u>496,932</u>	<u>86,805,672</u>
Net Business-Type Activities					
Capital Assets	<u>\$ 89,707,556</u>	<u>\$ (606,548)</u>	<u>\$ 179,105</u>	<u>\$ —</u>	<u>\$ 88,921,903</u>

Notes to the Financial Statements

(6) Capital Assets

	Balance - Beginning of Year (Restated - Note 18)	Increases	Decreases	Transfers	Balance - End of Year
Discretely Presented Component Unit Capital Assets					
Capital Assets Not Being Depreciated					
Land.....	\$ 164,152	\$ —	\$ —	\$ —	\$ 164,152
Assets not in service.....	<u>336,159</u>	<u>217,862</u>	<u>177,314</u>	<u>(45,070)</u>	<u>331,637</u>
Total Capital Assets Not Being Depreciated.....	<u>500,311</u>	<u>217,862</u>	<u>177,314</u>	<u>(45,070)</u>	<u>495,789</u>
Capital Assets Being Depreciated					
Buildings and improvements	1,726,195	100,546	—	(28,264)	1,798,477
Water supply and distribution systems.....	17,386,328	25,034	—	108,709	17,520,071
Meters and equipment.....	1,395,861	1,590	—	(14,670)	1,382,781
Machinery and equipment.....	<u>1,652,086</u>	<u>124,321</u>	<u>88,291</u>	<u>(20,705)</u>	<u>1,667,411</u>
Total Capital Assets Being Depreciated.....	<u>22,160,470</u>	<u>251,491</u>	<u>88,291</u>	<u>45,070</u>	<u>22,368,740</u>
Total Accumulated Depreciation	<u>5,378,673</u>	<u>231,663</u>	<u>71,632</u>	<u>—</u>	<u>5,538,704</u>
Net Capital Assets Being Depreciated.....	<u>16,781,797</u>	<u>19,828</u>	<u>16,659</u>	<u>45,070</u>	<u>16,830,036</u>
Net Discretely Presented Component Unit Capital Assets...	<u>\$ 17,282,108</u>	<u>\$ 237,690</u>	<u>\$ 193,973</u>	<u>\$ —</u>	<u>\$ 17,325,825</u>

Depreciation expense was charged by the City as follows for the year ended June 30, 2004:

Governmental Activities

Public safety	\$ 418,884
Public works	1,932,385
Health and social services.....	3,364
Culture and recreation.....	705,804
Community and economic development	188,920
General government.....	<u>84,104</u>
Total Governmental Activities	<u>3,333,461</u>

Business-Type Activities

Sanitary sewer.....	2,144,192
Sanitation.....	<u>234,983</u>
Total Business-Type Activities	<u>2,379,175</u>

Total Primary Government **\$ 5,712,636**

Component Unit - Water **\$ 231,663**

(7) Deferred Compensation Plans

Deferred Sick Leave Payout

Retirees have the option of receiving their sick leave (Note 8) payout immediately or receiving it as an annuity over 60 months. If the annuity option is selected, interest is paid to the retiree at the same rate as the City pays on the general obligation bonds last issued before the retirement date. At June 30, 2004, 28 retirees were receiving annuitized payouts, the present value of which was \$354,876.

During 2001, the City began offering an early sick leave payout option for certain employees. Qualifying employees can elect to receive 60% of the time in their frozen sick leave bank over a five-year period prior to their retirement or termination of employment. At June 30, 2004, 20 employees were receiving payments, the remaining balance of which was \$115,656.

Fire Retirement Plan Under Code of Iowa Chapter 410

The City provides pension benefits under Chapter 410 of the Code of Iowa for certain of its retired firefighters and beneficiaries through a defined benefit plan. The City acts as the administrator of the plan as prescribed by State statute. At June 30, 2004, the plan had two members receiving total benefits of \$1,967 per month which changed to \$2,067 per month in July, 2004. At June 30, 2004, the discounted present value of deferred compensation under this plan was \$95,311.

(8) Compensated Absences

City employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination or retirement. Governmental funds do not recognize these accumulations as expenditures until paid. The vacation pay utilizes a calendar year for the calculation of benefits while sick leave utilizes the City's fiscal year. Vacation days must be taken or paid during the calendar year except for management personnel who may carry forward one week with proper approval. As of June 30, 2004, there was \$798,454 accrued for unused vacation days.

Prior to July 1, 1984, sick leave was allowed to accumulate to a maximum of 240 days, except for police and fire personnel who could accumulate a maximum of 260 days. Any unused days at July 1, 1984 were accumulated into a frozen sick leave bank. The days frozen in the bank are paid upon use, termination or retirement (except for library employees who will only be paid upon use). If paid upon retirement, 60% of the total accumulated hours are paid to employees. Retirees have the option of receiving the payout immediately or receiving it as an annuity over 60 months. As discussed in Note 7, employees could elect to receive a payout of 60% of their frozen sick dollars beginning in July, 2001. As of June 30, 2004, there was \$990,795 accrued for the frozen sick leave bank.

After July 1, 1984, sick leave is allowed to accumulate up to 12 days per year. At the end of the year, 25% of the unused days are payable to the employee as a bonus and 75% of the days are placed in the sick leave bank for future use. The days accumulated in the bank after July 1, 1984 are not payable upon termination or retirement. At June 30, 2004, \$112,899, equivalent to 25% of unused sick leave subject to payout has been accrued.

Vacation pay and the sick leave bonus are accrued in the funds paying the compensation. Accumulated frozen sick bank leave is recorded as long-term debt in the government-wide statements and in the applicable enterprise fund.

Notes to the Financial Statements

(8) Compensated Absences

Certain employees can elect either to be paid overtime compensation or to accrue the hours as compensatory time, defined as additional time off from regular hours. Employees are required to be paid for these services upon termination of employment. Maximum hours eligible to be used later as compensatory time are limited by law and labor contracts. Governmental funds do not recognize these accumulations as expenditures until paid. At June 30, 2004, there was \$788,816 accrued for unused compensatory time of which \$769,049 is for governmental activities and \$19,767 is for business-type activities.

During the year ended June 30, 2004, it was discovered that the City's liability for compensatory time had not previously been recorded. Generally accepted accounting principles for government-wide reporting require that the City recognize a liability for the obligation and recognize the expense for the provision of these services during the period they were provided. See Note 18 for a further discussion of the effects of this error.

(9) Long-Term Debt

The following is a summary of the changes in long-term debt for the year ended June 30, 2004:

	Balance - Beginning of Year (Restated - Note 18)	Additions	Retirements	Balance - End of Year	Range of Interest Rates
Governmental Activities					
General obligation bonds and notes	\$ 55,270,000	\$ 12,470,000	\$ 8,450,000	\$ 59,290,000	2.00 - 6.000%
Loans and notes.....	1,509,779	385,000	291,665	1,603,114	0.00 - 6.600
Capital lease obligations	315,512	436,266	412,264	339,514	4.95 - 5.384
Deferred compensation.....	589,378	211,715	235,250	565,843	2.67 - 5.580
Compensated absences	1,960,828	45,118	314,408	1,691,538	N/A
Total Governmental Activities	<u>\$ 59,645,497</u>	<u>\$ 13,548,099</u>	<u>\$ 9,703,587</u>	<u>\$ 63,490,009</u>	
Business-Type Activities					
General obligation bonds	\$ 12,890,000	\$ 1,100,000	\$ 380,000	\$ 13,610,000	2.00 - 5.500
Revenue bonds.....	21,940,000	—	2,070,000	19,870,000	4.50 - 7.625
Capital lease obligations	25,304	—	25,304	—	4.95 - 5.384
Subtotal	34,855,304	1,100,000	2,475,304	33,480,000	
Less unamortized discounts and reacquisition costs	318,738	—	78,198	240,540	
Total Business-Type Activities.....	<u>\$ 34,536,566</u>	<u>\$ 1,100,000</u>	<u>\$ 2,397,106</u>	<u>\$ 33,239,460</u>	

The City issues bonds and notes primarily to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and notes have been issued for governmental and business-type activities and to refund prior general obligation debt. Revenue bonds have been issued to fund the acquisition and construction of sanitary sewer facilities and to refund prior general obligation and revenue debt.

General obligation bonds and notes are direct obligations and pledge the full faith and credit of the City. Revenue bonds are the obligations of the Sanitary Sewer Enterprise Fund and are generally payable solely from the revenue of the Sanitary Sewer Enterprise Fund. Bonds generally are issued as 15 to 20-year serial bonds.

Notes to the Financial Statements

(9) Long-Term Debt

During the year ended June 30, 2004, the City issued tax-exempt General Obligation Bonds, Series 2004A in the amount of \$9,745,000, maturing June 1, 2005-2019, with coupon rates of 2.5% - 4.75% (based on length to maturity) less a discount of \$11,793. The face amount of refunding bonds, \$2,705,000, is reported as proceeds in the GO Debt Service Fund. An additional \$1,100,000, to be used to finance sanitary sewer improvements and to be repaid with user fees, is reported in the Sanitary Sewer Enterprise Fund. The remainder of \$5,940,000 is to be used to finance various projects throughout the City and is reported in the June 2004 GO Bond Capital Projects Fund.

The City also issued \$3,825,000 of taxable General Obligation Bonds, Series 2004B. These bonds mature June 1, 2005 through 2018 and have coupon rates of 3% - 5.85%. The face amount of these bonds is reported in the June, 2004 GO Bond Capital Projects Fund and are to be used as follows:

Discount.....	\$ 31,350
Issue costs.....	78,650
Downtown development.....	140,000
Northeast Industrial Area land acquisition and development.....	3,500,000
Rath Area development.....	75,000
Total.....	<u>\$ 3,825,000</u>

Annual debt service on general obligation and revenue bonds at June 30, 2004 are as follows:

GO Debt Service Fund

Year Ending June 30,	<u>General Obligation Bonds</u>	
	Principal	Interest
2005.....	\$ 6,070,000	\$ 2,462,870
2006.....	5,760,000	2,238,881
2007.....	5,775,000	2,041,616
2008.....	5,020,000	1,840,045
2009.....	4,880,000	1,642,086
2010 - 2014.....	20,500,000	5,323,912
2015 - 2019.....	11,285,000	1,387,873
	<u>\$ 59,290,000</u>	<u>\$ 16,937,283</u>

Sanitary Sewer Enterprise Fund

Year Ending June 30,	<u>General Obligation Bonds</u>		<u>Revenue Bonds</u>	
	Principal	Interest	Principal	Interest
2005.....	\$ 585,000	\$ 639,020	\$ 2,145,000	\$ 1,215,786
2006.....	625,000	613,121	2,235,000	1,094,746
2007.....	650,000	585,550	2,315,000	974,326
2008.....	960,000	556,545	1,330,000	854,251
2009.....	1,010,000	513,573	1,345,000	774,198
2010 - 2014.....	5,755,000	1,820,711	7,785,000	2,459,746
2015 - 2019.....	4,025,000	489,678	2,715,000	279,851
	<u>\$ 13,610,000</u>	<u>\$ 5,218,198</u>	<u>\$ 19,870,000</u>	<u>\$ 7,652,904</u>

Notes to the Financial Statements

(9) Long-Term Debt

Enterprise fund interest expense of \$2,016,052 for the year ended June 30, 2004 includes \$1,928,832 on bonds plus \$8,721 on sanitary sewer capital leases, \$301 on sanitation capital leases, \$30,015 for discount amortization and \$48,183 for reacquisition amortization.

The resolutions providing for the issuance of revenue bonds include the following covenants:

1. The bonds will only be redeemed from the future earnings of the sewer system and the bondholders hold a lien on the future earnings.
2. Sufficient monthly transfers shall be made to the sewer revenue bond and interest sinking account for the purpose of making the bond principal and interest payments when due.
3. Monthly transfers will be made to establish a sewer revenue debt reserve fund, at a minimum required balance equal to at least 10% of the original principal amount of bonds outstanding. The amounts shall be used solely for the purpose of paying principal or interest on the bonds when insufficient money is available in the sinking fund. Whenever it shall become necessary to use the funds in the debt reserve fund, monthly payments shall be established to restore the funds used within a three-year period.
4. Monthly transfers of \$20,000 to the sewer improvement fund shall be made until the fund equals or exceeds \$450,000. Amounts in the improvement fund not otherwise specially limited by provisions of the bond resolution shall first be used for the purpose of paying principal or interest on the bonds when there shall be insufficient money in the sinking fund and the reserve fund, to pay the cost of extraordinary maintenance or repairs, renewals and replacements not included in the annual budget of revenue and current expenses, payment of rentals on any part of the system or payments due for any property purchased as a part of the system and for capital improvements to the system. Whenever it becomes necessary to so use the improvement fund, the monthly payments required shall be continued or resumed until the fund is restored to the required minimum balance.
5. The City will cause to be kept proper books and accounts adapted to the system and in accordance with generally accepted accounting practices, and will cause the books and accounts to be audited annually not later than 90 days after the end of each fiscal year by an independent auditor.
6. The City will faithfully and punctually perform all duties with reference to the Sewer Enterprise required by the Constitution and laws of the State of Iowa.
7. The City will establish rates to allow net revenue to meet or exceed 125% of debt service requirements for the year. For the year ended June 30, 2004, sewer net revenue was 153% of debt service.

For the year ended June 30, 2004, except for timing of the annual audit, the City complied with bond covenants.

As discussed in Note 19, the City subsequently refunded all revenue bonds. Covenants applicable to the refunding issues are essentially the same as noted above except the audit due date has been changed from 90 days to 270 days after the end of each fiscal period.

Notes to the Financial Statements

(9) Long-Term Debt

Refunded Bonds

On June 30, 2004, the City defeased \$2,635,000 of Series 1996 general obligation bonds by approving a funding trust agreement with its refunding trustee. On June 30, 2004, the City closed on \$2,705,000 of General Obligation Refunding Bonds dated June 1, 2004 with proceeds of \$2,648,653 wired directly to the refunding trustee. Accordingly, neither the trust account nor the defeased bonds are included in the City's financial statements.

Governmental Activities

The City, through its blended component unit, Waterloo Housing Authority, is indebted to the Federal Financing Bank (FFB) for \$700,609 from the purchase of the Ridgeway Towers housing complex. The debt is scheduled to mature November 1, 2015. The United States Department of Housing and Urban Development pays interest and principal of \$86,364, annually, directly to FFB. The City reports the payment transaction in the GO Debt Service Fund.

The City was indebted to the Waterloo Industrial Development Association (WIDA) for land known as the Northeast Industrial Park. Payments were made from the TIF Debt Service Fund. During the year ended June 30, 2004, this debt was retired. Principal of \$75,600 and interest of \$10,821 was paid to WIDA.

During November, 1996, to obtain funding for promoting Midport America, the City's airport area tax increment financing district, the City borrowed \$100,000 from Basic Materials Corp. Interest, at 3%, is due on the loan each June 1. Principal is to be repaid as land in the district is marketed; however, the City intends to repay the loan at \$10,000 per year until repaid. During the year ended June 30, 2004, the City paid principal of \$10,000 plus interest of \$2,537 on the loan. Payments are made from the TIF Debt Service Fund. At June 30, 2004, the unpaid principal was \$80,000.

On March 22, 1999, the City entered into a real estate purchase agreement with Hurst Holding Company for land known as the Tower Technology Park. The purchase price of \$548,856 is to be paid in annual installments of \$78,408, beginning April 1, 2002 through April 1, 2008 when the remaining balance is due. Included in the payment is variable interest at the prime rate minus 0.25% adjusted each April 1 (3.75% at April 1, 2004). During the year ended June 30, 2004, the City paid principal of \$61,613 and interest of \$16,795 from the TIF Debt Service Fund. At June 30, 2004, the balance of \$295,863 is outstanding.

During the three years ended June 30, 2004, the City reported that it had drawn \$197,082 of a potential \$345,875 loan from the Iowa Department of Economic Development, Brownfield Redevelopment Program, for the purchase of real estate in the Rath Redevelopment Area. The loan is at zero percent interest with no payments due in the first five years after development. Depending on the percentage increase in taxable property valuation for the redevelopment area, from 100% to 0% of the loan will be forgiven. The unforgiven portion will be due in ten equal semi-annual payments. The City has scheduled repayment for July, 2011 from the TIF Debt Service Fund. At June 30, 2004, the City determined that it incorrectly accounted for a drawdown in 2002 and that \$248,454 had actually been drawn on this loan. As disclosed in Note 18, beginning net assets have been increased \$51,373 to correct this error.

On May 18, 2004, the City purchased land for development from Brock, Inc. for \$385,000 under a real estate contract requiring annual payments of \$40,000 including interest at 3% beginning June 1, 2005 and continuing through June 1, 2009 when the unpaid balance is due. At June 30, 2004, a balance of \$329,560 was outstanding. The City has scheduled repayments to be made from the TIF Debt Service Fund.

Notes to the Financial Statements

(9) Long-Term Debt

Other Loans and Notes

Other governmental activity loans and notes mature as follows:

Year Ending June 30,	<u>GO Debt Service Fund</u>		<u>TIF Debt Service Fund</u>	
	Principal	Interest	Principal	Interest
2005.....	\$ 39,997	\$ 46,367	\$ 106,803	\$ 24,005
2006.....	42,764	43,600	110,836	19,672
2007.....	45,586	40,778	114,384	15,824
2008.....	48,595	37,769	129,142	11,849
2009.....	51,707	34,657	214,258	7,328
2010 - 2014	314,942	116,878	227,082	1,800
2015 - 2016	157,018	15,710	—	—
	<u>\$ 700,609</u>	<u>\$ 335,759</u>	<u>\$ 902,505</u>	<u>\$ 80,478</u>

Agency Fund Loan

The City passes through loans and forgivable loans from the Iowa Department of Economic Development (IDED)'s Community Economic Betterment Account (CEBA) to local businesses. The City is required to make a good faith effort to ensure IDED's Community Economic Betterment Account is repaid for the loans and, if required, the forgivable loans. The recipients may make payments directly to IDED. At June 30, 2004, outstanding balances on the two loans and two forgivable loans totaled \$170,300. This debt is recorded in the CEBA Agency Fund.

Capital Lease Obligations

In previous years, the City purchased park, golf course maintenance, road maintenance and sewer maintenance equipment at a cost, net of trade-ins, of \$2,521,221. The purchases were financed with capital lease obligations from John Deere Credit with interest rates ranging from 4.95% through 5.384%.

On July 14, 2003, the City approved a lease purchase agreement with John Deere Credit to purchase equipment costing \$436,266 for use in parks and golf courses. Terms include six semi-annual payments of \$73,930, including interest at 1% beginning December 1, 2003. Payments are recorded in the GO Debt Service Fund. The transaction was recorded as a culture and recreation expenditure and as an other financing source in the General Fund.

At June 30, 2004, future minimum lease payments on the capital lease obligations were as follows:

Year Ending June 30,	<u>Governmental Activities</u>				
	<u>Go Debt Service Fund</u>		<u>Road Use Tax Special Revenue Fund</u>		Present Value of Minimum Lease Payments
	Minimum Lease Payments	Interest Portion	Minimum Lease Payments	Interest Portion	
2005.....	\$ 178,983	\$ 3,668	\$ 7,320	\$ 145	\$ 182,490
2006.....	158,351	1,327	—	—	157,024
	<u>\$ 337,334</u>	<u>\$ 4,995</u>	<u>\$ 7,320</u>	<u>\$ 145</u>	<u>\$ 339,514</u>

Notes to the Financial Statements

(10) Operating Leases

Effective July 1, 1999, the City's sanitary sewer operations entered into a five-year agreement for the management of biosolid by-products produced at the Wastewater Treatment Facility. The agreement included the lease of a storage facility at a monthly cost of \$18,000. Effective July 1, 2004, the agreement was extended for an additional five years at a monthly rental of \$4,500.

The following is a schedule by years of future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at June 30, 2004:

Year Ending June 30,	
2005.....	\$ 54,000
2006.....	54,000
2007.....	54,000
2008.....	54,000
2009.....	54,000
Total	<u>\$ 270,000</u>

Rental expense for all material operating leases was \$216,000 for the year ended June 30, 2004.

(11) Retirement Systems

Police and Fire Retirement Plans

The City contributes to the Municipal Fire and Police Retirement System of Iowa (MFPRSI), which is a cost-sharing multiple-employer public police and fire employees defined benefit pension plan administered by a board of trustees.

MFPRSI provides retirement, disability and death benefits which are established by state statute to plan members and beneficiaries. MFPRSI issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to MFPRSI, 2836 - 104th Street, Urbandale, Iowa 50322.

Plan members are required to contribute 9.35% of their earnable compensation and the City's contribution rate may not be less than 17% of annual earnable compensation. For the year ended June 30, 2004, the City's rate was 20.48%. Contribution requirements are established by state statute and may be amended by the State of Iowa legislature with the consent of the governor. The City's contributions to MFPRSI for the years ended June 30, 2004, 2003 and 2002 were \$2,199,954, \$1,807,190 and \$1,772,347 respectively, which met the required contributions for each year.

Iowa Public Retirement System

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

Notes to the Financial Statements

(11) Retirement Systems

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute and may be amended by the State of Iowa legislature with the consent of the governor. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$661,927, \$640,237 and \$632,850, respectively, which met the required contributions for each year.

Component Unit

Plan Description - The Waterloo Water Works (Utility) maintains the Waterloo Water Works Pension Plan (Plan), which is a single employer defined benefit plan administered by the Pension Committee of the Waterloo Water Works. The Plan provides retirement benefits to plan members and beneficiaries. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the Committee. The Plan does not issue a stand-alone financial report. The actuarial report on the Plan is held at the Utility's office.

Funding Policy

The contribution requirements of Plan members and the Utility are established and may be amended by the Utility. Plan member contributions are not currently required. The Utility is required to contribute amounts necessary to provide benefits based on the actuarial valuation. Amounts contributed to the plan during 2003, 2002 and 2001 were \$150,000, \$0 and \$0, respectively.

Annual Pension Cost and Net Pension Obligation

The annual pension cost for 2003 was determined as part of the actuarial valuation using the January 1, 2003 aggregate actuarial method. This method does not identify or separately amortize unfunded actuarial accrued liabilities. The actuarial assumptions for 2002 and 2001 included (a) 8% investment rate of return (net of administrative expenses) and (b) projected salary increases of 3% per year, compounded annually and retirement at age 65. The actuarial valuation at January 1, 2003 assumes retirement at age 62 with 30 years of service. The assumptions did not include any postretirement benefits. The actuarial value of assets was determined using the current market value of investments.

Three-Year Trend Information

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2001	\$ 47,003	0%	\$ 47,003
December 31, 2002	100,214	0%	147,217
December 31, 2003	107,163	140%	104,380

(12) Deficit Fund Balances

The Federal Projects Special Revenue Fund had a deficit in unreserved fund balance of \$841,635 at June 30, 2004.

Notes to the Financial Statements

(13) Commitments

Construction

The City is involved in construction of capital assets, mainly streets and sanitary sewer facilities. Much of the construction is funded, at up to 85% of the cost for streets and at 55% for sanitary sewer facilities, through federal grants. City participation in the programs is generally funded through proceeds of debt issues. At June 30, 2004, the City was committed to approximately \$9.8 million of construction contracts.

Property Tax Rebates

The City has entered into several development agreements with various businesses located in City tax increment financing districts. The agreements offer rebates of portions of taxes paid for up to ten years, depending on each individual agreement. The amount of the rebates are a percentage of the actual taxes paid by the business. Rebates are reported at the time property taxes are received.

Loan Guarantees

The City has guaranteed a bank loan of Cedar Skyline Corporation d/b/a Main Street Waterloo. In the event the primary debtor is unable to repay the loan, the City would be required to make the payments. At June 30, 2004, the note balance was approximately \$246,000.

In conjunction with the Downtown and East Side Small Business Improvement Program, the City has committed to guarantee up to the greater of 50% or \$25,000 of eligible loans made by participating banks. No such loans had been made as of June 30, 2004.

Retired Employees Health Care

Employees hired before 1990 who retire with 28 or more years of service but who have not reached age 65 are eligible for City-paid health care coverage. During the year ended June 30, 2004, the City incurred approximately \$815,000 for retirees' health care coverage of which approximately \$37,000 was paid by retirees under COBRA provisions. The City records the costs on the "pay as you go" method. Programs/functions are charged for employees who retired from the program/function.

(14) Joint Ventures and Jointly Governed Organizations

The City is a participating member of several organizations including the Black Hawk County Criminal Justice Information System (CJIS), the Black Hawk County Solid Waste Management Commission (SWMC) and the Metropolitan Transit Authority (MET). The City is contingently liable for a portion of the debt of CJIS. In addition, the City pays its share of costs for CJIS, including debt service, pays landfill fees to SWMC and levies, collects from Black Hawk County and remits property taxes to MET (\$1,056,191 during the year ended June 30, 2004). During the year ended June 30, 2004, the City received a distribution of \$1,073,828 from SWMC. Cumulative unexpended SWMC distributions are reported in the General Fund as designated for Vision Iowa projects. Also, during the year ended June 30, 2004, the Sanitation Fund recognized an operating grant of \$274,988 from SWMC and received \$274,988 from the prior year grant. These grants are used to offset recycling costs.

CJIS financial information is reported within the Black Hawk County annual financial report. SWMC and MET issue their own annual reports.

The City has no equity position in any of the organizations.

Notes to the Financial Statements

(15) Industrial Development Revenue Bonds

The City has issued a total of \$137,809,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa. The amount outstanding at June 30, 2004 is not reported to the City by either the debtors or creditors. Therefore, outstanding balances are unknown. The bonds and related interest are payable solely from revenue of applicable projects. Bond principal and interest do not constitute liabilities of the City.

(16) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The City assumes the risks of loss of both mobile vehicles and equipment, except certain fire equipment with large per-unit costs which are insured against loss, and police officers and firefighters workers' compensation.

(17) Contingencies

The City is involved in various lawsuits in the normal course of business. The City's management cannot predict the outcome of the lawsuits or reasonably estimate the amount of any loss that may result. Accordingly, no provision for any contingent liabilities that may result has been made in the financial statements. Management believes that losses resulting from these matters, if any, would be primarily covered under the City's insurance policies and would not have a material effect on the financial position of the City.

(18) Prior Period Adjustments

During the year ended June 30, 2004, City management determined that four corrections were necessary to previously reported net assets.

A drawdown from an Iowa Department of Economic Development forgivable loan was accrued and recognized as an other operating source of funds at June 30, 2002. Cash was received during the year ended June 30, 2003. Debt reported at June 30, 2003 duplicated the accrual. At June 30, 2003, governmental other loans and notes were overstated and governmental net assets invested in capital assets, net of related debt, were understated by the amount of the duplication. \$ 51,372 a

The noncurrent liability for compensated absences due to banked compensatory time was inadvertently omitted from the net asset conversion at June 30, 2002, the changes in functional expenses for the year ended June 30, 2003 and the liability at June 30, 2003. Had the liability been properly reported, governmental noncurrent liabilities - compensated absences would have increased and governmental unrestricted net assets would have decreased by the amount of the omission. 720,320 b

Notes to the Financial Statements

(18) Prior Period Adjustments

As discussed in Note 14, the Black Hawk County Solid Waste Management Commission awarded an operating grant to the City prior to June 30, 2003 and recorded the liability as of June 30, 2003. The award date was not reported to City financial management. Therefore, the grant receivable and revenue were not recognized by the City at June 30, 2003. Had the award been properly recognized, sanitation fund and business-type receivables and unrestricted net assets would have increased by the amount of the award.

\$ 274,988 c

When the City valued its buildings and improvements in 1994, the library was recorded at the original cost when it was built as a post office in 1939 less accumulated depreciation equal to the cost for a net book value of zero. The City received the land and building in 1979 when its estimated fair value was \$57,145 for land and \$514,306 for the building. During the year ended June 30, 1981, the City expended \$3,650,000 on capital improvements which allowed the building to serve as a library. Capitalized building costs are depreciated on a straight-line basis over an estimated useful life of 40 years. Capital assets and net assets at the beginning of the year have been restated as follows:

	As Previously Reported	Error Correction	As Restated	Net Asset Effect
Land.....	\$ 25,347,413	\$ 57,145	\$ 25,404,558	
Buildings and improvements	55,953,603	3,592,855	59,546,458	
Less accumulated depreciation for buildings and improvements	<u>28,765,674</u>	<u>1,848,749</u>	<u>30,614,423</u>	
Net Buildings and Improve- ments Depreciated.....	<u>27,187,929</u>	<u>1,744,106</u>	<u>28,932,035</u>	
Net Land, Buildings and Improvements	<u>\$ 52,535,342</u>	<u>\$ 1,801,251</u>	<u>\$ 54,336,593</u>	<u>\$ 1,801,251</u> d

Total net assets at June 30, 2003 have been restated as follows:

	Government Wide				Proprietary Funds		
	Govern- mental Activities	Business- Type Activities	Total	Component Unit	Major Sanitary Sewer	Nonmajor Sanitation	Total
Total net assets, as previously reported	\$ 63,944,254	\$ 65,455,880	\$ 129,400,134	\$ 17,469,340	\$ 63,258,685	\$ 2,197,195	\$ 65,455,880
Corrections							
a.....	51,372	—	51,372	—	—	—	—
b.....	(720,320)	—	(720,320)	—	—	—	—
c.....	—	274,988	274,988	—	—	274,988	274,988
d.....	<u>1,801,251</u>	<u>—</u>	<u>1,801,251</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>1,132,303</u>	<u>274,988</u>	<u>1,407,291</u>	<u>—</u>	<u>—</u>	<u>274,988</u>	<u>274,988</u>
Total Net Assets, as Restated	<u>\$ 65,076,557</u>	<u>\$ 65,730,868</u>	<u>\$ 130,807,425</u>	<u>\$ 17,469,340</u>	<u>\$ 63,258,685</u>	<u>\$ 2,472,183</u>	<u>\$ 65,730,868</u>

Notes to the Financial Statements

(19) Subsequent Events

On June 28, 2004, the City agreed to pay WDC Properties I, Inc. \$241,500 plus interest at 4.5% in two years for property located at 220 Jefferson. Property closing, which created the liability, took place August 10, 2004.

On August 12, 2004, the City closed on two sewer revenue refunding bond issues dated August 1, 2004. Proceeds were used to pay costs of issuance and to refund all outstanding sanitary sewer revenue bonds. Net proceeds were deposited with a refunding agent. Outstanding issues will be called and retired at the first available call date after the closing. Maturities of the refund bonds are as follows:

Year Ending June 30,	Tax Exempt			Taxable			Total	
	Principal	Rates	Interest	Principal	Rates	Interest	Principal	Interest
2005	\$ 1,995,000	2.500%	\$ 271,716	\$ 720,000	3.00%	\$ 333,365	\$ 2,715,000	\$ 605,081
2006	1,930,000	2.500	312,413	395,000	3.00	422,886	2,325,000	735,299
2007	2,210,000	3.000	264,163	135,000	3.50	411,036	2,345,000	675,199
2008	880,000	3.000	197,863	615,000	4.00	406,311	1,495,000	604,174
2009	610,000	3.500	171,463	875,000	4.30	381,711	1,485,000	553,174
2010 - 2014	3,030,000	3.5 - 3.875	514,307	5,130,000	4.50 - 5.25	1,260,917	8,160,000	1,775,224
2015 - 2019	985,000	4.0 - 4.200	81,640	1,725,000	5.35 - 5.45	122,813	2,710,000	204,453
	<u>\$ 11,640,000</u>		<u>\$ 1,813,565</u>	<u>\$ 9,595,000</u>		<u>\$ 3,339,039</u>	<u>\$ 21,235,000</u>	<u>\$ 5,152,604</u>

Total debt service of \$26,387,604 (principal \$21,235,000 and interest \$5,152,604) replace the revenue bond debt service discussed in Note 9 of \$27,522,904 (principal \$19,870,000 and interest \$7,652,904) for a net reduction of \$1,135,300.

Required Supplementary Information

Budgetary Comparison Schedule - Budget to Actual (Modified Cash Basis) - All Governmental Funds and Proprietary Funds

Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		Actual Amounts	Actual Over (Under) Final Budget
	Original	Final	Budgetary Basis (See Note B)	
Revenue and Other Financing Sources				
Receipts				
Property taxes	\$ 29,033,374	\$ 29,033,374	\$ 29,076,565	\$ 43,191
TIF revenue	1,765,000	1,765,000	1,892,297	127,297
Other taxes	9,971,129	10,693,419	10,930,657	237,238
Licenses and permits.....	1,042,841	1,092,841	1,154,492	61,651
Use of money and property	1,100,920	1,100,920	1,652,980	552,060
Intergovernmental.....	21,609,633	27,885,673	20,013,967	(7,871,706)
Charges for services.....	18,339,529	18,493,654	17,742,046	(751,608)
Special assessments.....	106,000	101,000	37,700	(63,300)
Miscellaneous.....	<u>630,700</u>	<u>783,850</u>	<u>2,023,059</u>	<u>1,239,209</u>
Total Receipts	<u>83,599,126</u>	<u>90,949,731</u>	<u>84,523,763</u>	<u>(6,425,968)</u>
Other Financing Sources				
Transfer from other funds.....	8,289,933	9,247,707	8,311,267	(936,440)
Debt proceeds	6,500,000	44,940,000	13,900,000	(31,040,000)
Sale of capital assets.....	—	—	142,933	142,933
Total Other Financing Sources ..	<u>14,789,933</u>	<u>54,187,707</u>	<u>22,354,200</u>	<u>(31,833,507)</u>
Total Receipts and Other Financing Sources	<u>98,389,059</u>	<u>145,137,438</u>	<u>106,877,963</u>	<u>(38,259,475)</u>
Disbursements and Other Financing Uses				
Governmental Activities				
Public safety	20,925,331	20,970,417	20,303,374	(667,043)
Public works	16,947,041	17,608,242	15,377,316	(2,230,926)
Health and social services	444,374	439,179	440,395	1,216
Culture and recreation.....	6,124,750	6,063,109	5,590,242	(472,867)
Community and economic development	12,916,121	13,957,943	10,025,137	(3,932,806)
General government	3,401,570	3,311,920	2,920,607	(391,313)
Debt service	10,711,278	17,707,278	13,082,852	(4,624,426)
Capital projects	<u>11,500,000</u>	<u>29,416,473</u>	<u>11,542,763</u>	<u>(17,873,710)</u>
Total Governmental Activities	82,970,465	109,474,561	79,282,686	(30,191,875)
Business-type activities	<u>13,159,503</u>	<u>33,392,100</u>	<u>12,549,677</u>	<u>(20,842,423)</u>
Total Disbursements	<u>96,129,968</u>	<u>142,866,661</u>	<u>91,832,363</u>	<u>(51,034,298)</u>
Other Financing Uses				
Transfers to other funds	<u>8,289,933</u>	<u>9,247,707</u>	<u>8,311,267</u>	<u>(936,440)</u>
Total Disbursements and Other Financing Uses.....	<u>104,419,901</u>	<u>152,114,368</u>	<u>100,143,630</u>	<u>(51,970,738)</u>
Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses				
Beginning Fund Balance	<u>69,187,652</u>	<u>69,187,652</u>	<u>31,856,002</u>	<u>(37,331,650)</u>
Ending Fund Balance.....	<u>\$ 63,156,810</u>	<u>\$ 62,210,722</u>	<u>\$ 38,590,335</u>	<u>\$ (23,620,387)</u>

Budgetary Comparison Schedule - Budget to Actual (Modified Cash Basis) - All Governmental Funds and Proprietary Funds

- (A) In accordance with the Code of Iowa, the City Council annually adopts a budget on a modified cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type and nonprogram. Although the budget document presents function disbursements by fund type, the legal level of control is at the aggregated function level, not at the fund or fund type level. During the year, one budget amendment was adopted which increased budgeted disbursements by approximately \$46,740,000. The budget amendments are reflected in the final budgeted amounts.

- (B) The City uses the same modified cash basis of accounting for budgetary reporting as is used for its internal financial records. Under this basis, cash transactions are modified by certain receivables and payables and by certain noncash revenue and expenditures.

Schedule of Comparison - Funds Statements (GAAP Basis) to Budgetary (Modified Cash) Basis

Year Ended June 30, 2004

	GAAP Basis			Property Tax Collected for and Other GAAP		Budgetary Basis
	Governmental Funds	Enterprise Funds	Total Funds	Remitted to MET	Conversion Adjustments	
Revenue/Receipts						
Property taxes	\$ 31,726,881	\$ —	\$ 31,726,881	\$ 1,056,191	\$ (1,814,210)	\$ 30,968,862
Other taxes	9,187,463	—	9,187,463	—	1,743,194	10,930,657
Licenses and permits	1,151,715	—	1,151,715	—	2,777	1,154,492
Use of money and property	733,879	78,470	812,349	—	840,631	1,652,980
Intergovernmental	19,963,676	758,444	20,722,120	—	(708,153)	20,013,967
Charges for services	5,791,181	12,658,065	18,449,246	—	(707,200)	17,742,046
Interfund charges for services	2,671,780	—	2,671,780	—	(2,671,780)	—
Special assessments	109,999	—	109,999	—	(72,299)	37,700
Miscellaneous	2,336,581	—	2,336,581	—	(313,522)	2,023,059
Total Revenue/Receipts	73,673,155	13,494,979	87,168,134	1,056,191	(3,700,562)	84,523,763
Expenditures and Expenses/Disbursements						
Public safety	20,081,214	—	20,081,214	—	222,160	20,303,374
Public works	17,121,845	—	17,121,845	1,054,195	(2,798,724)	15,377,316
Health and social services	517,555	—	517,555	—	(77,160)	440,395
Culture and recreation	6,506,123	—	6,506,123	—	(915,881)	5,590,242
Community and economic development	11,966,597	—	11,966,597	—	(1,941,460)	10,025,137
General government	3,501,031	—	3,501,031	—	(580,424)	2,920,607
Debt service	8,896,219	2,016,052	10,912,271	—	2,170,581	13,082,852
Capital projects	7,820,334	—	7,820,334	—	14,533,866	22,354,200
Business-type activities	—	9,509,606	9,509,606	—	3,040,071	12,549,677
Total Expenditures and Expenses/Disbursements	76,410,918	11,525,658	87,936,576	1,054,195	13,653,029	102,643,800
Net	(2,737,763)	1,969,321	(768,442)	1,996	(17,353,591)	(18,120,037)
Other Financing Sources (Uses)						
Operating transfers in	7,226,431	—	7,226,431	—	1,084,836	8,311,267
Operating transfers out	(7,213,818)	(12,613)	(7,226,431)	—	(1,084,836)	(8,311,267)
Proceeds from sales of assets	197,945	(34,206)	163,739	—	(20,806)	142,933
Debt issued	13,291,266	—	13,291,266	—	608,734	13,900,000
Payment to refunded bond escrow agent	(2,648,652)	—	(2,648,652)	—	2,648,652	—
Bond discounts and issue costs	(148,943)	(41,531)	(190,474)	—	190,474	—
Total Other Financing Sources (Uses)	10,704,229	(88,350)	10,615,879	—	3,427,054	14,042,933
Change in Fund Balance/ Net Assets						
Balance - Beginning of Year ...	22,753,205	65,730,868	88,484,073	—	(56,628,071)	31,856,002
Balance - End of Year	\$ 30,719,671	\$ 67,611,839	\$ 98,331,510	\$ 1,996	\$(70,554,608)	\$ 27,778,898

Other Supplementary Information

General Fund Description

The General Fund is used to account for all of the City's financial resources which are not required legally, contractually or by sound financial management to be accounted for in another fund.

Schedule of Revenue, Expenditures and Changes in Fund Balance -

General Fund

Year Ended June 30, 2004

Revenue

Property taxes	\$ 14,402,507
Other taxes	1,379,822
Licenses and permits.....	1,142,650
Use of money and property	461,170
Intergovernmental.....	1,298,209
Charges for services.....	5,245,846
Interfund charges for service	1,986,780
Special assessments.....	109,999
Miscellaneous.....	2,197,384
Total Revenue	<u>\$ 28,224,367</u>

Expenditures

Public Safety Program

Mayor

Black Hawk Emergency Management Agency

Contractual services	\$ 46,910
Total Activity and Department.....	<u>46,910</u>

Police Department

Police Operations

Compensation and benefits	7,713,066
Contractual services	809,809
Commodities	198,088
Capital outlay	259
Total Activity.....	<u>8,721,222</u>

Police Grants

Compensation and benefits	70,255
Contractual services	1,471
Commodities	4,000
Capital outlay	22,381
Total Activity.....	<u>98,107</u>

Local Law Enforcement Block Grant

Compensation and benefits	58,046
Contractual services	24,263
Total Activity.....	<u>82,309</u>

Law Enforcement Program

Contractual services	20,000
Commodities	62,260
Total Activity.....	<u>82,260</u>

Tobacco Grant

Compensation and benefits	3,848
Total Activity.....	<u>3,848</u>
Total Department	<u>8,987,746</u>

Schedule of Revenue, Expenditures and Changes in Fund Balance - General Fund

Year Ended June 30, 2004

Expenditures

Public Safety Program

Fire Department

Fire Protection

Compensation and benefits	\$ 5,806,242
Contractual services	368,787
Commodities	<u>179,334</u>
Total Activity.....	<u>6,354,363</u>

Fire Restricted Programs

Commodities	<u>353</u>
Total Activity.....	<u>353</u>

Fire Ambulance Services

Compensation and benefits	909,387
Contractual services	108,731
Commodities	<u>101,655</u>
Total Activity.....	<u>1,119,773</u>

Fire Safety Program

Compensation and benefits	129,706
Contractual services	28,930
Commodities	<u>5,339</u>
Total Activity.....	<u>163,975</u>

Fire Federal CDC Grant

Compensation and benefits	32,313
Contractual services	7,208
Commodities	<u>1,071</u>
Total Activity.....	<u>40,592</u>

Fire Federal ACT Grant

Compensation and benefits	26,278
Contractual services	4,605
Capital outlay	<u>2,301</u>
Total Activity.....	<u>33,184</u>
Total Department	<u>7,712,240</u>

Traffic Operations Department

Animal Control

Contractual services	184,991
Commodities	<u>261</u>
Total Activity and Department.....	<u>185,252</u>

Building Inspection Department

Building and Housing Safety

Compensation and benefits.....	643,757
Contractual services	24,211
Commodities	<u>16,476</u>
Total Activity and Department.....	<u>684,444</u>

Statement of Revenue, Expenditures and Changes in Fund Balance - General Fund

Year Ended June 30, 2004

Expenditures

Public Safety Program Totals

Current

Compensation and benefits.....	\$ 15,392,898
Contractual services	1,629,916
Commodities	<u>568,837</u>
Subtotal.....	17,591,651
Capital outlay.....	<u>24,941</u>

Total Public Safety Program..... \$ 17,616,592

Public Works Program

Clerk

Parking Administration

Compensation and benefits	\$ 38,612
Contractual services	63,021
Commodities	<u>3,409</u>
Total Activity and Department.....	<u>105,042</u>

Planning and Zoning

Sidewalk Repair/Construction

Capital outlay	<u>(3,701)</u>
Total Activity and Department.....	<u>(3,701)</u>

Traffic Operations

Parking Maintenance

Compensation and benefits	181,202
Contractual services	38,397
Commodities	8,762
Capital outlay	<u>2,004</u>
Total Activity and Department.....	<u>230,365</u>

Airport

Airport Administration

Compensation and benefits	509,180
Contractual services	372,999
Commodities	<u>68,888</u>
Total Activity.....	<u>951,067</u>

Airport State Projects

Contractual services	<u>9,574</u>
Total Activity.....	<u>9,574</u>
Total Department	<u>960,641</u>

Schedule of Revenue, Expenditures and Changes in Fund Balance - General Fund

Year Ended June 30, 2004

Expenditures

Public Works Program Totals

Current

Compensation and benefits.....	\$ 728,994
Contractual services.....	483,991
Commodities.....	<u>81,059</u>
Subtotal.....	1,294,044
Capital outlay.....	<u>(1,697)</u>

Total Public Works Program \$ 1,292,347

Health and Social Services Program

Mayor

Youth Initiative/Juvenile Justice Grant

Compensation and benefits.....	\$ 16,378
Contractual services.....	79,400
Commodities.....	<u>4,727</u>
Total Activity.....	<u>100,505</u>

Health and Sanitation

Contractual services.....	<u>75,000</u>
Total Activity.....	<u>75,000</u>
Total Department.....	<u>175,505</u>

Human Rights Department

Human Rights

Compensation and benefits.....	180,503
Contractual services.....	25,699
Commodities.....	<u>2,518</u>
Total Activity.....	<u>208,720</u>

Housing Enforcement

Compensation and benefits.....	68,157
Contractual services.....	50,336
Commodities.....	2,736
Capital outlay.....	<u>6,886</u>
Total Activity.....	<u>128,115</u>

Cedar Valley Diversity Action Team

Contractual services.....	<u>5,215</u>
Total Activity.....	<u>5,215</u>
Total Department.....	<u>342,050</u>

Health and Social Services Program Totals

Current

Compensation and benefits.....	265,038
Contractual services.....	235,650
Commodities.....	<u>9,981</u>
Subtotal.....	510,669
Capital outlay.....	<u>6,886</u>

Total Health and Social Services Program \$ 517,555

Schedule of Revenue, Expenditures and Changes in Fund Balance -

General Fund

Year Ended June 30, 2004

Expenditures

Culture and Recreation Program

Mayor

KBBG Communications

Contractual services	\$ 17,000
Total Activity.....	<u>17,000</u>

Fairview Cemetery Association

Contractual services	<u>25,000</u>
Total Activity.....	<u>25,000</u>
Total Department	<u>42,000</u>

Cultural/Arts

Junior Gallery

Contractual services	1,344
Commodities	<u>5,127</u>
Total Activity.....	<u>6,471</u>

Center for the Arts

Compensation and benefits	517,422
Contractual services	137,013
Commodities	<u>11,711</u>
Total Activity.....	<u>666,146</u>

Theater and Symphony

Compensation and benefits	<u>111,804</u>
Total Activity.....	<u>111,804</u>
Total Department	<u>784,421</u>

Library

Library Services

Compensation and benefits	836,909
Contractual services	201,386
Commodities	156,098
Capital outlay	448
Total Activity.....	<u>1,194,841</u>

Enrich Iowa

Contractual services	<u>17,930</u>
Total Activity.....	<u>17,930</u>

Library Access Plus

Commodities	<u>1,690</u>
Total Activity.....	<u>1,690</u>

Library Grants

Commodities	<u>10,150</u>
Total Activity.....	<u>10,150</u>

Library Gift and Trust

Commodities	76,284
Capital outlay	<u>6,456</u>
Total Activity.....	<u>82,740</u>

Schedule of Revenue, Expenditures and Changes in Fund Balance -

General Fund

Year Ended June 30, 2004

Expenditures

Culture and Recreation Program

Library

Library Service Area

Commodities	\$ 5,200
Total Activity.....	<u>5,200</u>

County Library System

Contractual services	14,284
Commodities	20,423
Capital outlay	<u>3,400</u>
Total Activity.....	<u>38,107</u>

Library Open Access

Commodities	6,649
Total Activity.....	<u>6,649</u>
Total Department	<u>1,357,307</u>

Leisure Services

Leisure Services

Compensation and benefits	1,118,602
Contractual services	222,345
Commodities	161,078
Capital outlay	<u>207,921</u>
Total Activity.....	<u>1,709,946</u>

Leisure Services Projects

Commodities	998
Capital outlay	<u>15,343</u>
Total Activity.....	<u>16,341</u>

Golf Courses

Compensation and benefits	677,216
Contractual services	31,630
Commodities	<u>327,093</u>
Total Activity.....	<u>1,035,939</u>

Golf Course Improvements

Commodities	55,983
Capital outlay	<u>2,332</u>
Total Activity.....	<u>58,315</u>

Sports and Youth Services

Compensation and benefits	324,576
Contractual services	36,955
Commodities	87,530
Capital outlay	<u>1,182</u>
Total Activity.....	<u>450,243</u>

Young Arena

Compensation and benefits	284,121
Contractual services	128,538
Commodities	165,615
Capital outlay	<u>24,678</u>
Total Activity.....	<u>602,952</u>
Total Department	<u>3,873,736</u>

Schedule of Revenue, Expenditures and Changes in Fund Balance - General Fund

Year Ended June 30, 2004

Expenditures

Culture and Recreation Program Totals

Current

Compensation and benefits.....	\$ 3,870,650
Contractual services.....	833,425
Commodities.....	<u>1,091,629</u>
Subtotal.....	5,795,704
Capital outlay.....	<u>261,760</u>

Total Culture and Recreation Program..... \$ 6,057,464

Community and Economic Development Program

Mayor

Iowa Northland Council of Governments

Contractual services.....	\$ 27,499
Total Activity.....	<u>27,499</u>

Municipal Band

Contractual services.....	21,000
Total Activity.....	<u>21,000</u>

Tourism Promotion

Contractual services.....	62,634
Total Activity.....	<u>62,634</u>

Waterloo Convention and Visitors Bureau

Contractual services.....	<u>357,590</u>
Total Activity.....	<u>357,590</u>
Total Department.....	<u>468,723</u>

Planning and Zoning

Planning and Zoning

Compensation and benefits.....	396,670
Contractual services.....	11,137
Commodities.....	4,143
Capital outlay.....	<u>4,601</u>
Total Activity.....	<u>416,551</u>

Economic Development

Capital outlay.....	<u>420,000</u>
Total Activity.....	<u>420,000</u>
Total Department.....	<u>836,551</u>

Central Garage

Central Garage

Compensation and benefits.....	556,298
Contractual services.....	12,838
Commodities.....	<u>77,685</u>
Total Activity.....	<u>646,821</u>

Schedule of Revenue, Expenditures and Changes in Fund Balance -

General Fund

Year Ended June 30, 2004

Expenditures

Community and Economic Development Program

Central Garage

Central Garage - Motor Pool Service

Commodities	\$ 44,932
Total Activity.....	<u>44,932</u>
Total Department	<u>691,753</u>

Building Inspection

Code Enforcement

Compensation and benefits	135,838
Contractual services	1,865
Commodities	1,900
Total Activity.....	<u>139,603</u>

Five Sullivans Civic Center

Compensation and benefits	55,725
Contractual services	47,575
Commodities	34,865
Capital outlay	169,460
Total Activity.....	<u>307,625</u>
Total Department	<u>447,228</u>

Cultural/Arts

Cultural Arts Projects

Contractual services	29,677
Commodities	33
Total Activity and Department.....	<u>29,710</u>

Community Development

LHAP-Housing Pool

Capital outlay	970
Total Activity.....	<u>970</u>

Emergency Shelter Pass Through

Compensation and benefits	1,453
Contractual services	150,863
Total Activity.....	<u>152,316</u>

Economic Development

Contractual services	21,652
Total Activity.....	<u>21,652</u>
Total Department	<u>174,938</u>

Community and Economic Development Program Totals

Current

Compensation and benefits.....	1,145,984
Contractual services	744,330
Commodities	163,558
Subtotal.....	<u>2,053,872</u>
Capital outlay.....	<u>595,031</u>

Total Community and Economic Development Program **\$ 2,648,903**

Schedule of Revenue, Expenditures and Changes in Fund Balance - General Fund

Year Ended June 30, 2004

Expenditures

General Government Program

Mayor's Office

Compensation and benefits.....	\$ 94,488
Contractual services.....	12,287
Commodities.....	<u>1,050</u>
Total Activity.....	<u>107,825</u>

Administrative and Management Information Services

Compensation and benefits.....	141,912
Contractual services.....	102,815
Commodities.....	<u>5,293</u>
Total Activity.....	<u>250,020</u>

Veteran's Memorial Hall

Contractual services.....	68
Commodities.....	<u>7,597</u>
Total Activity.....	<u>7,665</u>
Total Department.....	<u>365,510</u>

City Council

City Council

Compensation and benefits.....	43,311
Contractual services.....	<u>2,750</u>
Total Activity and Department.....	<u>46,061</u>

City Clerk and Finance

Telecommunications

Compensation and benefits.....	87,292
Contractual services.....	1,665
Commodities.....	2,132
Capital outlay.....	<u>3,239</u>
Total Activity.....	<u>94,328</u>

City Clerk and Finance

Compensation and benefits.....	460,646
Contractual services.....	259,911
Claims, judgments and contingencies.....	44,810
Election costs.....	38,052
Commodities.....	<u>5,899</u>
Total Activity.....	<u>809,318</u>

Liability Insurance

Compensation and benefits.....	363,888
Contractual services.....	<u>846,513</u>
Total Activity.....	<u>1,210,401</u>

Health and Life Insurance

Compensation and benefits.....	<u>(6,274)</u>
Total Activity.....	<u>(6,274)</u>

Schedule of Revenue, Expenditures and Changes in Fund Balance -

General Fund

Year Ended June 30, 2004

Expenditures

General Government Program

City Clerk and Finance

Print Shop

Contractual services	\$ 42,086
Total Activity.....	<u>42,086</u>
Total Department	<u>2,149,859</u>

City Attorney

City Attorney

Compensation and benefits	91,327
Contractual services	116,601
Commodities	<u>7,331</u>
Total Activity and Department.....	<u>215,259</u>

Human Resources

Human Resources

Compensation and benefits	183,640
Contractual services	11,408
Commodities	<u>1,571</u>
Total Activity and Department.....	<u>196,619</u>

Building Inspection

Facilities Maintenance

Compensation and benefits	197,172
Contractual services	199,138
Commodities	<u>59,970</u>
Total Activities and Department	<u>456,280</u>

General Government Program Totals

Current

Compensation and benefits.....	1,657,402
Contractual services	1,678,104
Commodities	<u>90,843</u>
Subtotal.....	3,426,349
Capital outlay.....	<u>3,239</u>

Total General Government Program..... \$ 3,429,588

**Schedule of Revenue, Expenditures and Changes in Fund Balance -
General Fund**

Year Ended June 30, 2004

Expenditures	
Public Safety.....	\$ 17,616,592
Public Works.....	1,292,347
Health and Social Services.....	517,555
Culture and Recreation.....	6,057,464
Community and Economic Development	2,648,903
General Government.....	<u>3,429,588</u>
Total Expenditures	<u>\$ 31,562,449</u>
Revenue Under Expenditures	<u>\$ (3,338,082)</u>
Other Financing Sources (Uses)	
Operating transfers in	5,276,000
Operating transfers out.....	(332,433)
Proceeds from sale of assets	197,945
Capital lease obligations incurred.....	<u>436,266</u>
Total Other Financing Sources.....	<u>5,577,778</u>
Revenue and Other Financing Sources Over Expenditures and Other Financing Uses.....	2,239,696
Fund Balance - Beginning of Year.....	<u>5,817,682</u>
Fund Balance - End of Year	<u>\$ 8,057,378</u>

Combining Balance Sheet Schedule - Nonmajor Governmental Funds ▬

At June 30, 2004

	Special Revenue	TIF Debt Service	Capital Projects	Total
Assets				
Cash and cash equivalents	\$ 4,287,032	\$ 1,140,549	\$ 13,338,600	\$ 18,766,181
Investments	426,799	—	—	426,799
Receivables				
Property taxes - succeeding year...	451,050	2,152,294	—	2,603,344
Loans and notes.....	184,564	—	—	184,564
Due from other funds.....	450,000	—	53,413	503,413
Due From Other Governments				
Federal	2,156,086	—	194,945	2,351,031
Iowa.....	1,654,436	—	473,719	2,128,155
Other	7,144	11,210	—	18,354
Inventories and prepaids	372,148	—	—	372,148
Restricted Assets				
Cash and cash equivalents	<u>87,569</u>	<u>—</u>	<u>—</u>	<u>87,569</u>
Total Assets	<u>\$ 10,076,828</u>	<u>\$ 3,304,053</u>	<u>\$ 14,060,677</u>	<u>\$ 27,441,558</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 473,637	\$ 156,212	\$ 377,421	\$ 1,007,270
Retainages payable.....	101,116	—	96,085	197,201
Accrued liabilities.....	118,272	—	257	118,529
Due to other funds.....	1,490,530	—	1,844,396	3,334,926
Deferred revenue.....	3,231,149	2,152,294	307,738	5,691,181
Compensated absences.....	187,497	—	—	187,497
Advances from other funds.....	—	379,868	—	379,868
Payable From Restricted Assets				
Customer deposits and advances..	<u>140,214</u>	<u>—</u>	<u>—</u>	<u>140,214</u>
Total Liabilities.....	<u>5,742,415</u>	<u>2,688,374</u>	<u>2,625,897</u>	<u>11,056,686</u>
Fund Balances				
Reserved for inventories and prepaids	14,006	—	—	14,006
Reserved for improvements	82,957	—	—	82,957
Unreserved				
Undesignated	<u>4,237,450</u>	<u>615,679</u>	<u>11,434,780</u>	<u>16,287,909</u>
Total Fund Balances.....	<u>4,334,413</u>	<u>615,679</u>	<u>11,434,780</u>	<u>16,384,872</u>
Total Liabilities and Fund Balances	<u>\$ 10,076,828</u>	<u>\$ 3,304,053</u>	<u>\$ 14,060,677</u>	<u>\$ 27,441,558</u>

Combining Schedule of Revenue, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds

Year Ended June 30, 2004

	Special Revenue	TIF Debt Service	Capital Projects	Total
Revenue				
Property taxes	\$ 436,819	\$ 1,884,064	\$ —	\$ 2,320,883
Licenses and permits.....	9,065	—	—	9,065
Use of money and property	12,408	13,708	64,498	90,614
Intergovernmental.....	17,623,366	—	905,606	18,528,972
Charges for services.....	451,877	—	13,650	465,527
Interfund charges for service	685,000	—	—	685,000
Miscellaneous.....	83,761	—	1,200	84,961
Total Revenue	<u>19,302,296</u>	<u>1,897,772</u>	<u>984,954</u>	<u>22,185,022</u>
Expenditures				
Current				
Public safety.....	219,653	—	—	219,653
Public works.....	9,689,046	—	—	9,689,046
Culture and recreation.....	448,659	—	—	448,659
Community and economic development	8,860,562	457,132	—	9,317,694
Debt Service				
Principal	151,496	202,721	—	354,217
Interest and fees	2,479	30,154	—	32,633
Capital projects.....	—	—	7,820,334	7,820,334
Total Expenditures	<u>19,371,895</u>	<u>690,007</u>	<u>7,820,334</u>	<u>27,882,236</u>
Revenue Over (Under) Expenditures	(69,599)	1,207,765	(6,835,380)	(5,697,214)
Other Financing Sources (Uses)				
Operating transfers in.....	64,073	—	834,878	898,951
Operating transfers out.....	(46,142)	(1,000,000)	(17,931)	(1,064,073)
Debt issued.....	—	—	10,150,000	10,150,000
Bond discounts and issue costs	—	—	(145,670)	(145,670)
Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses.....	(51,668)	207,765	3,985,897	4,141,994
Fund Balance - Beginning of Year....	<u>4,386,081</u>	<u>407,914</u>	<u>7,448,883</u>	<u>12,242,878</u>
Fund Balance - End of Year	<u>\$ 4,334,413</u>	<u>\$ 615,679</u>	<u>\$ 11,434,780</u>	<u>\$ 16,384,872</u>

Special Revenue Funds - Descriptions ---

Special Revenue Funds account for the proceeds of specific revenue sources that are legally or contractually restricted for particular purposes. The proceeds are segregated into individual funds to ensure that expenditures are made exclusively for qualified purposes, as follows:

Major:

Employee Benefits Fund (Trust and Agency Fund) - This fund is required by the Code of Iowa to account for property taxes levied for employee benefits.

Local Option Tax Fund - This fund is used to account for the proceeds of the local 1% sales and use tax which are used for reconstruction and repair of City streets.

Nonmajor:

Library Tax Levy Fund - This fund is used to account for property taxes levied, as passed by local referendum, to be used to increase the hours of operation of the Waterloo Public Library.

Community Development Block Grant Fund - This fund accounts for revenue received under the Community Development Block Grant federal entitlement.

Road Use Tax Fund - This fund is required by the Code of Iowa to account for the City's share of fuel taxes collected and allocated by the state which must be used for local street maintenance.

State Funded Projects Fund - This fund is used to account for resources received from the state of Iowa for various state-approved projects. These projects could include, but are not limited to, RISE (Revitalize Iowa's Sound Economy), REAP (Resource Enhancement and Protection) and CEBA (Community Economic Betterment Account).

Housing Programs Fund - This fund is used to account for resources received to provide housing assistance, primarily Federal Section 8 and Ridgeway Towers.

Federal Projects Fund - This fund is used to account for resources received for various federally funded projects which are not accounted for elsewhere.

Federal Aviation Agency Projects Fund - This fund is used to account for resources from the Federal Aviation Agency and Passenger Facility Charges for airport development.

Combining Balance Sheet Schedule - Nonmajor Special Revenue Funds

At June 30, 2004

	Library Tax Levy	Community Develop- ment Block Grant	Road Use Tax	Housing Programs	Federal Projects	Federal Aviation Agency Projects	Total
Assets							
Cash and cash equivalents	\$ 443,376	\$ 600	\$ 1,963,333	\$ 1,772,263	\$ —	\$ 107,460	\$ 4,287,032
Investments	—	—	—	426,799	—	—	426,799
Receivables							
Property taxes - succeeding year	451,050	—	—	—	—	—	451,050
Loans and notes	—	184,564	—	—	—	—	184,564
Due from other funds	—	—	—	—	—	450,000	450,000
Due from Other Governments							
Federal	—	1,691,564	—	120,901	87,171	256,450	2,156,086
Iowa	—	—	—	—	1,654,436	—	1,654,436
Other	5,632	—	—	—	1,512	—	7,144
Inventories and prepaids	—	—	14,006	358,142	—	—	372,148
Restricted cash and cash equivalents	—	—	—	4,612	—	82,957	87,569
Total Assets	\$ 900,058	\$ 1,876,728	\$ 1,977,339	\$ 2,682,717	\$ 1,743,119	\$ 896,867	\$ 10,076,828
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ —	\$ 204,793	\$ 59,053	\$ 14,003	\$ 131,375	\$ 64,413	\$ 473,637
Retainages payable	—	933	—	—	75,183	25,000	101,116
Accrued liabilities	12,709	15,258	81,949	7,595	761	—	118,272
Due to other funds	—	69,885	789	5,664	1,414,192	—	1,490,530
Deferred revenue	451,050	1,560,406	—	—	963,243	256,450	3,231,149
Compensated absences	11,849	25,453	137,665	12,530	—	—	187,497
Payable from Restricted Assets							
Customer deposits and advances	—	—	—	140,214	—	—	140,214
Total Liabilities ..	475,608	1,876,728	279,456	180,006	2,584,754	345,863	5,742,415
Fund Balances							
Reserved for inventories and prepaids	—	—	14,006	—	—	—	14,006
Reserved for improvements	—	—	—	—	—	82,957	82,957
Unreserved - undesignated	424,450	—	1,683,877	2,502,711	(841,635)	468,047	4,237,450
Total Fund Balances	424,450	—	1,697,883	2,502,711	(841,635)	551,004	4,334,413
Total Liabilities and Fund Balances	\$ 900,058	\$ 1,876,728	\$ 1,977,339	\$ 2,682,717	\$ 1,743,119	\$ 896,867	\$ 10,076,828

Combining Schedule of Revenue, Expenditures and Changes in Fund

Balances - Nonmajor Special Revenue Funds

Year Ended June 30, 2004

	Library Tax Levy	Community Development Block Grant	Road Use Tax	State Funded Projects	Housing Programs	Federal Projects	Federal Aviation Agency Projects	Total
Revenue								
Property taxes	\$ 436,819	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 436,819
Licenses and permits.....	—	—	9,065	—	—	—	—	9,065
Use of money and property	3,830	—	—	—	8,472	—	106	12,408
Intergovernmental.....	—	3,055,294	5,726,700	45,360	5,208,889	2,602,156	984,967	17,623,366
Charges for services.....	—	40,565	54,393	—	156,312	15,000	185,607	451,877
Interfund charges for service	—	—	685,000	—	—	—	—	685,000
Miscellaneous.....	—	29,187	17,682	—	5,595	31,297	—	83,761
Total Revenue	440,649	3,125,046	6,492,840	45,360	5,379,268	2,648,453	1,170,680	19,302,296
Expenditures								
Current								
Public safety.....	—	—	—	—	—	207,015	12,638	219,653
Public works.....	—	—	5,813,597	—	—	2,106,524	1,768,925	9,689,046
Culture and recreation.....	448,659	—	—	—	—	—	—	448,659
Community and economic development.....	—	3,125,046	—	—	5,156,675	578,841	—	8,860,562
Debt Service								
Principal	—	—	151,496	—	—	—	—	151,496
Interest and fees	—	—	2,479	—	—	—	—	2,479
Total Expenditures	448,659	3,125,046	5,967,572	—	5,156,675	2,892,380	1,781,563	19,371,895
Revenue Over (Under) Expenditures	(8,010)	—	525,268	45,360	222,593	(243,927)	(610,883)	(69,599)
Other Financing Sources (Uses)								
Operating transfers in.....	—	—	—	46,142	—	—	17,931	64,073
Operating transfers out.....	—	—	—	—	—	(46,142)	—	(46,142)
Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(8,010)	—	525,268	91,502	222,593	(290,069)	(592,952)	(51,668)
Fund Balance - Beginning of Year.....	432,460	—	1,172,615	(91,502)	2,280,118	(551,566)	1,143,956	4,386,081
Fund Balance - End of Year	\$ 424,450	\$ —	\$ 1,697,883	\$ —	\$ 2,502,711	\$ (841,635)	\$ 551,004	\$ 4,334,413

Debt Service Fund Description

Major:

The GO Debt Service Fund is used to account for the accumulation of resources for, and payment of, principal and interest on general long-term debt.

Nonmajor:

The TIF Debt Service Fund is used to account for the accumulation of resources from tax increment financing projects, payment of contracted rebates and other obligations related to the projects and transfers to the GO Debt Service Fund and/or other funds to reimburse the other funds for expenditures on the projects.

Capital Project Funds - Descriptions

Capital Project Funds account for the City's financial resources used for the acquisition or construction of major nonproprietary capital facilities. The City of Waterloo has capital project funds as follows:

Nonmajor:

June 2000 GO Bonds Fund - This fund is used to account for proceeds from the 2000 general obligation bond sale until expended for the proper purpose.

June 2001 GO Bonds Fund - This fund is used to account for proceeds from the 2001 general obligation bond sale until expended for the proper purpose.

June 2002 GO Bonds Fund - This fund is used to account for proceeds from the 2002 general obligation bond sale until expended for the proper purpose.

June 2003 GO Bonds Fund - This fund is used to account for proceeds from the 2003 general obligation bond sale until expended for the proper purpose.

June 2004 GO Bonds Fund - This fund is used to account for proceeds from the 2004 general obligation bond sale until expended for the proper purpose.

Sixth Street Substitution Fund - This fund is used to account for resources used for the construction/reconstruction of Martin Luther King Jr. Drive/Sixth Street.

Rath Area Redevelopment Fund - This fund is used to account for resources used for the acquisition and redevelopment of real estate within the boundaries established as the Rath Area.

Vision Iowa Projects Fund - This fund is used to account for resources used for costs incurred for projects assigned to the Vision Iowa group of projects.

Combining Balance Sheet Schedule - Capital Projects Funds

At June 30, 2004

	June 2000 GO Bonds	June 2001 GO Bonds	June 2002 GO Bonds	June 2003 GO Bonds	June 2004 GO Bonds	Sixth Street Substitution	Rath Area Redevelop- ment	Vision Iowa Projects	Total
Assets									
Cash and cash equivalents	\$ 3,812	\$ 197,350	\$ 1,339,346	\$ 3,172,302	\$ 8,349,562	\$ 76,228	\$ —	\$ 200,000	\$ 13,338,600
Due from other funds.....	—	—	53,413	—	—	—	—	—	53,413
Due From Other Governments									
Federal.....	—	—	—	—	—	—	194,945	—	194,945
Iowa.....	—	—	—	—	—	21,205	452,514	—	473,719
Total Assets	\$ 3,812	\$ 197,350	\$ 1,392,759	\$ 3,172,302	\$ 8,349,562	\$ 97,433	\$ 647,459	\$ 200,000	\$ 14,060,677
Liabilities and Fund Balances									
Liabilities									
Accounts payable	\$ —	\$ 19,736	\$ 54,869	\$ 139,615	\$ 109,649	\$ —	\$ 18,313	\$ 35,239	\$ 377,421
Retainages payable.....	—	—	29,492	6,394	15,632	—	44,567	—	96,085
Accrued liabilities.....	—	—	—	—	—	—	257	—	257
Due to other funds.....	—	—	—	450,000	1,184,909	—	209,487	—	1,844,396
Deferred revenue.....	—	—	—	—	—	21,205	286,533	—	307,738
Total Liabilities.....	—	19,736	84,361	596,009	1,310,190	21,205	559,157	35,239	2,625,897
Fund Balances									
Unreserved									
Undesignated.....	3,812	177,614	1,308,398	2,576,293	7,039,372	76,228	88,302	164,761	11,434,780
Total Fund Balances.....	3,812	177,614	1,308,398	2,576,293	7,039,372	76,228	88,302	164,761	11,434,780
Total Liabilities and Fund Balances	\$ 3,812	\$ 197,350	\$ 1,392,759	\$ 3,172,302	\$ 8,349,562	\$ 97,433	\$ 647,459	\$ 200,000	\$ 14,060,677

**Combining Schedule of Revenue, Expenditures and Changes in Fund
Balances - Capital Projects Funds**

Year Ended June 30, 2004

	June 2000 GO Bonds	June 2001 GO Bonds	June 2002 GO Bonds	June 2003 GO Bonds	June 2004 GO Bonds	Sixth Street Substitution	Rath Area Redevelop- ment	Vision Iowa Projects	Total
Revenue									
Use of money and property	\$ 114	\$ 3,717	\$ 4,676	\$ 55,304	\$ 177	\$ 93	\$ 417	\$ —	\$ 64,498
Intergovernmental.....	—	—	—	—	—	184,775	720,831	—	905,606
Charges for services.....	—	—	—	—	—	—	13,650	—	13,650
Miscellaneous.....	—	—	—	—	—	—	1,200	—	1,200
Total Revenue	114	3,717	4,676	55,304	177	184,868	736,098	—	984,954
Expenditures									
Capital projects.....	15,033	463,956	1,286,947	1,421,432	2,998,867	12,665	1,305,242	316,192	7,820,334
Total Expenditures	15,033	463,956	1,286,947	1,421,432	2,998,867	12,665	1,305,242	316,192	7,820,334
Revenue Over (Under) Expenditures.....	(14,919)	(460,239)	(1,282,271)	(1,366,128)	(2,998,690)	172,203	(569,144)	(316,192)	(6,835,380)
Other Financing Sources (Uses)									
Operating transfers in.....	—	12,613	—	—	—	—	541,312	280,953	834,878
Operating transfers out.....	—	—	(17,931)	—	—	—	—	—	(17,931)
Debt issued.....	—	—	—	—	10,150,000	—	—	—	10,150,000
Bond discounts and issue costs	—	(24,500)	—	(9,232)	(111,938)	—	—	—	(145,670)
Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses									
Financing Uses	(14,919)	(472,126)	(1,300,202)	(1,375,360)	7,039,372	172,203	(27,832)	(35,239)	3,985,897
Fund Balance - Beginning of Year.....	18,731	649,740	2,608,600	3,951,653	—	(95,975)	116,134	200,000	7,448,883
Fund Balance - End of Year.....	\$ 3,812	\$ 177,614	\$ 1,308,398	\$ 2,576,293	\$ 7,039,372	\$ 76,228	\$ 88,302	\$ 164,761	\$ 11,434,780

Enterprise Funds - Descriptions

Enterprise Funds are used to account for all resources involved in the acquisition, operation, maintenance and debt service of governmental facilities and services that are supported by user charges. The City's Enterprise Funds are as follows:

Major:

Sanitary Sewer Fund - This fund accounts for the City's Sanitary Sewage Systems.

Nonmajor:

Sanitation Fund - This fund accounts for garbage collection services provided by the City.

Schedule of Cash Activity - Sanitary Sewer Fund

Year Ended June 30, 2004

	Revenue, Operation and Maintenance	Debt Sinking	Debt Reserve	Improve- ments	Project	Total Utility
Balance - July 1, 2003	<u>\$ 453,250</u>	<u>\$ 566,898</u>	<u>\$ 3,283,500</u>	<u>\$ —</u>	<u>\$ 1,493,186</u>	<u>\$ 5,796,834</u>
Receipts	10,266,279	—	—	—	306,421	10,572,700
Disbursements	(5,728,031)	(3,401,386)	—	(539,013)	(987,409)	(10,655,839)
Transfers In (Out) Within the Utility -						
Required	(3,545,411)	3,305,411	—	240,000	—	—
Other	<u>(299,013)</u>	<u>89,208</u>	<u>—</u>	<u>299,013</u>	<u>(89,208)</u>	<u>—</u>
Net Change for the Year	<u>693,824</u>	<u>(6,767)</u>	<u>—</u>	<u>—</u>	<u>(770,196)</u>	<u>(83,139)</u>
Balance - June 30, 2004	<u>\$ 1,147,074</u>	<u>\$ 560,131</u>	<u>\$ 3,283,500</u>	<u>\$ —</u>	<u>\$ 722,990</u>	<u>\$ 5,713,695</u>

Agency Fund Description

The CEBA Agency Fund is used to account for the Iowa Department of Economic Development, Community Economic Betterment Accounts (CEBA) loans to businesses within the City. The loans are passed through the City and the City is required to make a good faith effort to ensure that proper repayments are made to CEBA.

CEBA Agency Fund
Statement of Changes in Assets and Liabilities

Year Ended June 30, 2004

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Assets				
Notes Receivable.....	<u>\$ 460,233</u>	<u>\$ —</u>	<u>\$ 289,933</u>	<u>\$ 170,300</u>
Liabilities				
Notes Payable.....	<u>\$ 460,233</u>	<u>\$ —</u>	<u>\$ 289,933</u>	<u>\$ 170,300</u>

Statistical Section

Schedule of Insurance Policies

At June 30, 2004

INSURER	POLICY #	COVERAGE	Limits of Liability
Travelers Insurance Companies	KTKCMB545D010A03	Property insurance - Commercial Package Blanket property - building and contents Sewer inclusive with blanket coverage	\$100,000,000
The St. Paul Companies	GP06301409	General liability Law enforcement liability Public officials Automobile liability Excess/Umbrella Inland Marine Empl Benft Plan Admin. Liability	\$2,000,000 \$1,000,000 \$1,000,000 \$1,000,000 \$5,000,000 \$1,000,000 \$1,000,000 per occurrence \$3,000,000 aggregate
Iowa Communities Assurance Pool	510	Police Professional - Tri-County Drug Enforcement	\$2,000,000
Western World Ins. Co.	NPP0844609	Ambulance driver liability	\$1,000,000
Travelers Insurance Companies	M5JBM21338K2866TIL	Boiler insurance	\$5,000,000
Old Republic	PR145404	Airport General Liability	\$10,000,000 per occurrence
Old Republic	RDF331672	Forgery crime bond	\$50,000
Old Republic	RCB497705	Blanket fidelity bond	\$50,000
Travelers Insurance Companies	QT660958X6072T1	Builder's Risk	\$865,000
United States Liability Group Mt Vernon Fire Ins PA	CL2223701C	Liquor Liability Young Arena	\$1,000,000 per occurrence \$2,000,000 aggregate limit
Iowa Municipalities Workers' Compensation Association		Workers' Compensation	Statutory Does not include police officers or firefighters for which the risk is retained by the City

Sewer Systems Rates

Year Ended June 30, 2004

Rates	Monthly	Quarterly
--------------	----------------	------------------

Most customers are billed by Waterloo Water Works, with rates based on water usage.

Sewer rental charge is as follows:

Minimum charge	\$10.55	\$31.65
Each additional 100 cubic feet (ccf) above 3 ccf monthly and 9 ccf quarterly is charged.	1.68	1.68

Users located outside the City limits pay double rates.

The Utility charges certain commercial customers with their own water systems and/or surcharges directly. Except for the two largest customers, usage rates are as noted above plus surcharges as follows:

A surcharge for wastewaters in excess of domestic strength and containing no such chemical or other substances as would interfere with the proper operation of the purifying plant, shall be computed according to the following formula:

Biochemical Oxygen Demand (BOD) - \$0.10/lb
Total Suspended Solids (TSS) - \$0.10/lb
Total Kjeldahl Nitrogen (TKN) - \$0.10/lb

Special rates are as follows:

Eagle Tannery - Per month - \$10.55 for the first 3 ccf of discharge and \$1.93 per ccf in excess of 3 ccf plus surcharges of \$0.06/lb.

Tyson Foods, Inc. (formerly IBP, Inc.) - Per month - \$10.55 for the first 3 ccf of discharge plus \$1.10 per ccf in excess of 3 ccf plus surcharges of \$0.10/lb.

Source

The City of Waterloo, Iowa

CITY OF WATERLOO, IOWA
GENERAL GOVERNMENTAL* REVENUES
 LAST TEN FISCAL YEARS**

Revenue	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Property Taxes	N/A	N/A	\$ 23,667,951	\$ 24,796,385	\$ 24,518,573	\$ 24,404,620	\$ 23,743,025	\$ 25,502,059	\$ 28,916,809	\$ 31,726,881
Other Taxes	N/A	N/A	9,010,946	8,914,749	9,075,544	9,005,331	11,173,580	11,871,626	10,299,221	9,187,463
Licenses and Permits	N/A	N/A	668,282	876,639	888,130	887,344	864,720	839,907	988,352	1,151,715
Use of Money and Property	N/A	N/A	1,822,657	1,862,067	1,875,881	2,223,567	1,366,809	1,433,886	1,266,266	733,879
Intergovernmental	N/A	N/A	16,269,801	17,643,683	14,006,576	17,966,174	19,442,650	17,505,847	18,779,334	19,963,676
Charges for Services	N/A	N/A	4,059,455	4,952,345	5,212,655	5,151,070	5,018,820	7,551,032	5,236,433	5,791,181
Interfund Charges for Service	-	-	-	-	-	-	-	-	2,645,250	2,671,780
Special Assessments and Miscellaneous	N/A	N/A	1,866,963	1,024,064	913,234	1,508,875	1,269,188	1,081,807	2,296,537	2,446,580
Total Revenues	N/A	N/A	<u>\$ 57,366,055</u>	<u>\$ 60,069,932</u>	<u>\$ 56,490,593</u>	<u>\$ 61,146,981</u>	<u>\$ 62,878,792</u>	<u>\$ 65,786,164</u>	<u>\$ 70,428,202</u>	<u>\$ 73,673,155</u>

* Includes General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

** General revenues only available since July 1, 1996 when the City converted from cash reporting to G.A.A.P.

N/A = Not available

CITY OF WATERLOO, IOWA
GENERAL GOVERNMENTAL* EXPENDITURES BY PROGRAM
 LAST TEN FISCAL YEARS**

Expenditures	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Community Protection	N/A	N/A	\$ 15,196,875	\$ 15,617,945	\$ 16,303,192	\$ 17,207,429	\$ 17,542,119	\$ 18,510,064	\$ -	\$ -
Human Development	N/A	N/A	5,940,761	5,790,635	5,903,149	6,142,934	6,010,360	6,568,416	-	-
Environment	N/A	N/A	15,694,141	16,361,775	15,376,948	16,100,789	15,939,398	17,235,228	-	-
Policy and Administration	N/A	N/A	2,226,565	2,195,295	1,968,346	2,688,094	2,443,706	3,194,957	-	-
Capital Projects	N/A	N/A	6,816,669	17,895,200	17,073,926	19,971,392	14,793,519	11,398,069	5,289,432	7,820,334
Debt Service	N/A	N/A	8,859,088	8,689,009	9,237,741	9,368,023	10,378,451	10,075,259	9,286,922	8,896,219
Public Safety	-	-	-	-	-	-	-	-	19,393,834	20,081,214
Public Works	-	-	-	-	-	-	-	-	18,719,419	17,121,845
Services	-	-	-	-	-	-	-	-	510,114	517,555
Culture and Recreation	-	-	-	-	-	-	-	-	5,987,808	6,506,123
Community and Economic Development	-	-	-	-	-	-	-	-	10,257,455	11,966,597
General Government	-	-	-	-	-	-	-	-	3,310,503	3,501,031
Total Expenditures	N/A	N/A	<u>\$ 54,734,099</u>	<u>\$ 66,549,859</u>	<u>\$ 65,863,302</u>	<u>\$ 71,478,661</u>	<u>\$ 67,107,553</u>	<u>\$ 66,981,993</u>	<u>\$ 72,755,487</u>	<u>\$ 76,410,918</u>

* Includes General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

** General revenues only available since July 1, 1996 when the City converted from cash reporting to G.A.A.P.

N/A = Not available

CITY OF WATERLOO, IOWA
PROPERTY TAX LEVIES AND COLLECTIONS*
 LAST TEN FISCAL YEARS

Fiscal Year	Property Taxes Levied	Current Taxes Collected	Current Percent Collected	Total Taxes Collected	Total Percent Collected
1994-95	\$ 25,229,993	\$ 24,537,050	97.25%	\$ 24,963,911	98.95%
1995-96	25,246,895	24,613,099	97.49%	24,996,043	99.01%
1996-97	23,961,551	23,394,917	97.64%	23,713,416	98.96%
1997-98	24,813,242	24,418,926	98.41%	24,692,168	99.51%
1998-99	24,590,459	24,232,395	98.54%	24,613,406	100.09%
1999-00	24,140,238	24,004,504	99.44%	24,407,539	101.11%
2000-01	24,105,745	24,277,383	100.71%	24,558,757	101.88%
2001-02	26,384,840	25,866,384	98.04%	26,317,863	99.75%
2002-03	28,020,783	28,022,406	100.01%	28,141,338	100.43%
2003-04	29,033,374	29,059,188	100.09%	29,076,565	100.15%

* Based upon cash receipt of current and delinquent payment of property taxes during each fiscal period.

PROPERTY TAX RATES- ALL OVERLAPPING GOVERNMENTS
 LAST TEN FISCAL YEARS
 (PER \$1,000 ASSESSED VALUATION)

Fiscal Year	City of Waterloo	Waterloo Community School	County & County Assessor	State & Ag. Extension	Hawkeye Community College	Total Tax Levy Rate
1994-95	\$ 20.03635	\$ 16.09131	\$ 9.97458	\$ 0.06958	\$ 0.50172	\$ 46.67354
1995-96	18.58375	15.67034	8.44543	0.06464	0.74954	43.51370
1996-97	18.55368	15.02939	9.01033	0.06826	0.68629	43.34795
1997-98	18.50077	15.41126	8.77459	0.06604	0.68467	43.43733
1998-99	16.98070	15.39941	7.89119	0.06089	0.69600	41.02819
1999-00	16.50196	14.69924	7.83132	0.05926	0.71525	39.80703
2000-01	16.49097	14.57901	7.65952	0.05503	0.69371	39.47824
2001-02	17.80075	15.15557	8.07214	0.05392	0.69917	41.78155
2002-03	18.37162	15.52456	7.96339	0.05069	0.78418	42.69444
2003-04	18.90914	15.85083	8.08933	0.05004	0.78418	43.68352

Source: Black Hawk County Auditor.

CITY OF WATERLOO, IOWA

**ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE
PROPERTY* AND COMPARATIVE RATIO OF GENERAL BONDED
DEBT PER CAPITA**

LAST TEN FISCAL YEARS

Assessment Year	Tax Collection Fiscal Year	Assessed Property Valuation	Estimated Actual Valuation	Percent of Assessed to Actual	Population **	Bonded Debt	Bonded Debt Per Capita	Ratio of Debt to Assessed Valuation
1993	1994-95	\$ 1,240,965,624	\$ 1,626,818,697	76%	66,467	\$ 58,615,000	\$ 882	0.047
1994	1995-96	1,336,626,604	1,741,069,802	77%	66,467	57,730,000	869	0.043
1995	1996-97	1,280,130,144	1,720,819,194	74%	66,467	58,182,294	875	0.045
1996	1997-98	1,334,641,320	1,773,671,869	75%	66,467	58,441,349	879	0.044
1997	1998-99	1,437,756,403	2,010,769,909	72%	66,467	63,161,087	950	0.044
1998	1999-00	1,451,390,843	1,996,357,567	73%	68,747	62,348,888	907	0.043
1999	2000-01	1,541,838,027	2,168,711,970	71%	68,747	69,569,091	1,012	0.045
2000	2001-02	1,560,424,166	2,165,633,696	72%	68,747	67,085,000	976	0.043
2001	2002-03	1,603,311,449	2,410,525,352	67%	68,747	68,545,000	997	0.043
2002	2003-04	1,616,874,229	2,421,873,270	67%	68,747	73,230,000	1,065	0.045

* The differences between the assessed valuations and the actual valuations are the exclusions of tax increment financing district valuations and residential and commercial rollback factors in the assessed valuations.

** Source: 1990 and 2000 U.S. Census

CITY OF WATERLOO, IOWA
**COMPUTATION OF DIRECT AND OVERLAPPING
 GENERAL OBLIGATION DEBT**
 AS OF JUNE 30, 2004

<u>Name of Governmental Unit</u>	<u>Total Debt</u>	<u>Applicable Percent</u>	<u>Amount</u>	<u>Ratio to City Actual Valuation</u>	<u>Per Capita (2000 Pop. 68,747)</u>
City of Waterloo	\$ 73,230,000	100.00%	\$ 73,230,000	3.0237%	\$ 1,065.21
Black Hawk County	15,165,000	51.67%	7,835,756	0.3235%	113.98
Hudson Community Schools	4,412,223	7.85%	346,360	0.0143%	5.04
Hawkeye Comm. College	7,230,000	26.87%	1,942,701	0.0802%	28.26
Total Direct and Overlapping Debt			<u>\$ 83,354,816</u>	<u>3.4417%</u>	<u>\$ 1,212.49</u>

COMPUTATION OF LEGAL DEBT MARGIN
 AS OF JUNE 30, 2004

Estimated Actual Valuation as of January 1, 2002*	\$ 2,421,873,270	
State Constitutional Debt Limit = 5% of Total Valuation	\$ 121,093,664	
Amount of City Debt Applicable to Debt Limit	<u>75,643,160</u>	62.47%
Legal Debt Margin Available	<u>\$ 45,450,504</u>	37.53%

* Excludes \$13,708,520 of actual agricultural value.

Sources: Black Hawk County Auditor and City debt records.

CITY OF WATERLOO, IOWA

RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL OBLIGATION BOND DEBT TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES

LAST TEN FISCAL YEARS

Fiscal Year	G.O. Bond Principal	G.O. Bond Interest	Total G.O. Bond Debt Service	Total General Governmental Expenditures ¹	Ratio of Debt Service to Gen. Governmental Expenditures
1994-95	\$ 5,747,967	\$ 3,264,059	\$ 9,012,026	N/A	N/A
1995-96	5,736,549	2,907,178	8,643,727	N/A	N/A
1996-97	5,352,877	3,333,561	8,686,438	\$ 54,734,099	0.16
1997-98	5,405,945	3,104,732	8,510,677	66,549,859	0.13
1998-99	6,030,262	2,854,534	8,884,796	65,863,302	0.13
1999-00	6,241,355	2,835,284	9,076,639	71,478,661	0.13
2000-01	6,619,797	2,889,265	9,509,062	67,107,553	0.14
2001-02	6,609,091	2,561,121	9,170,212	66,981,993	0.14
2002-03	5,771,550	2,480,836	8,252,386	72,755,487	0.11
2003-04	5,815,000	2,294,097	8,109,097 ²	76,410,918	0.11

SCHEDULE OF SEWER REVENUE BOND COVERAGE

LAST TEN FISCAL YEARS

Fiscal Year	Revenue	Applicable Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements	Coverage Ratio
1994-95	\$ 8,564,068	\$ 4,007,245	\$ 4,556,823	\$ 2,638,476	1.7271
1995-96	8,607,390	3,575,411	5,031,979	3,135,435	1.6049
1996-97	8,470,749	3,786,454	4,684,295	2,966,050	1.5793
1997-98	8,390,715	4,232,070	4,158,645	3,325,105	1.2507
1998-99	8,604,707	4,413,235	4,191,472	3,687,368	1.1367
1999-00	8,738,606	4,306,393	4,432,213	3,522,199	1.2584
2000-01	8,620,518	4,063,694	4,556,824	3,466,156	1.3147
2001-02	8,646,771	4,330,170	4,316,601	3,436,606	1.2561
2002-03	9,257,236	4,336,741	4,920,495	3,427,576	1.4356
2003-04	9,653,550	4,445,425	5,208,125	3,401,386	1.5312

CITY OF WATERLOO, IOWA
DEMOGRAPHIC STATISTICS
 LAST TEN FISCAL YEARS

Fiscal Year	Population ¹	Median Household Effective Buying Income ²	City's Total Taxable Retail Sales ³	Median Home Sales Price Metro-area ⁴	Total Employment Black Hawk County ⁵	City's Annual Average Unemployment Rate ⁵	Waterloo Community School Enrollment ⁶	Waterloo Parochial School Enrollment ⁷
1994-95	66,467	\$ 30,141	\$ 752,253,141	\$ 56,500	68,200	5.4%	10,738	2,736
1995-96	66,467	27,015	809,317,467	61,435	68,900	5.5%	10,562	2,485
1996-97	66,467	28,447	844,954,077	65,069	69,700	4.6%	10,448	2,367
1997-98	66,467	29,508	897,255,964	70,760	73,800	4.2%	10,544	2,379
1998-99	66,467	29,649	912,205,047	75,957	72,700	4.7%	10,397	3,583
1999-00	68,747	30,509	925,632,078	77,000	73,600	3.9%	10,290	3,543
2000-01	68,747	31,491	959,316,804	82,000	73,300	4.1%	10,311	2,537
2001-02	68,747	32,050	918,767,187	87,800	72,900	5.2%	10,311	2,352
2002-03	68,747	30,550	927,565,500	89,500	72,400	5.7%	10,402	2,230
2003-04	68,747	30,762	954,236,765	96,000	74,400	5.7%	10,465	1,873

N/A = Not available.

Sources:

¹ 1990 and 2000 U.S. Census.

² "Sales & Marketing Management."

³ Iowa Dept. of Revenue and Finance.

⁴ Waterloo-Cedar Falls Board of Realtors.

⁵ Iowa Workforce Development.

⁶ Waterloo Community Schools.

⁷ Area Education Agency 267.

CITY OF WATERLOO, IOWA
PROPERTY VALUE AND CONSTRUCTION
 LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Total Actual Property Value¹</u>	<u>Construction Activity-Number of Permits Issued²</u>	<u>Total Construction Value of Permits²</u>
1994-95	\$ 1,638,530,696	7,824	\$ 47,985,537
1995-96	1,752,352,242	7,270	58,617,199
1996-97	1,731,559,884	7,016	62,892,199
1997-98	1,784,058,269	8,865	76,804,492
1998-99	2,023,129,399	8,013	89,104,465
1999-00	2,008,729,517	9,550	65,445,292
2000-01	2,086,472,271	8,913	62,936,151
2001-02	2,083,453,387	9,238	52,971,240
2002-03	2,329,662,794	9,396	75,434,613
2003-04	2,339,860,939	10,168	102,794,224

PRINCIPAL TAXPAYERS - TEN LARGEST

<u>Taxpayer</u>	<u>Business/Service</u>	<u>FY 2003-04 Actual Property Tax Valuation³</u>	<u>% of City's FY 2003-04 Actual Value⁴</u>
Deere and Company	Farm Tractors, Equipment	\$ 112,006,460	4.79%
Mid American Energy	Gas & Electric Utility	94,737,838	4.05%
Iowa Beef Processors	Meat Processing	35,471,050	1.52%
Equitable Life Assurance	Insurance	25,779,520	1.10%
Hunt Wesson, Inc.	Agricultural Products	16,317,760	0.70%
U.S. West Communications	Telephone Utility	14,566,751	0.62%
Bertch Cabinet Manufacturing	Cabinet Manufacturer	14,435,450	0.62%
HyVee Food Stores, Inc.	Grocery Store	9,326,490	0.40%
Banco Mortgage Company	Real Property	8,676,050	0.37%
WalMart Stores	Retail Store	8,627,190	0.37%
Total Ten Largest Taxpayers		<u>\$ 339,944,559</u>	<u>14.54%</u>

³ Source: Black Hawk County Assessor - total assessed values as of January 1, 2002

⁴ Source: Black Hawk County Auditor - City's total 2002 actual valuation of \$2,339,860,939

CITY OF WATERLOO, IOWA
MISCELLANEOUS STATISTICAL INFORMATION
 FOR THE FISCAL PERIOD ENDED JUNE 30, 2004

Year of incorporation	1868
Form of government	Mayor-Council
Area (square miles)	62.5
Miles of streets:	
Paved	360
Unpaved	65
Total number of city employees	537
Total number of sworn police officers	115
Fire protection:	
Number of stations	7
Number of fire fighters	113
Recreation:	
Number of city parks	54
Total park acreage	2,950
Total miles of bicycle trails	45
Other municipal facilities:	
Golf courses	3
Swimming pools	2
Softball diamonds	23
Baseball diamonds	8
Tennis courts	27
Baseball Stadium	1
Ice Arena	1
Airport runway lengths - feet	
Runway 1	8,401
Runway 2	6,001
Runway 3	5,403
Library collection size	201,158
Sanitary sewer & waste water treatment	
Miles of sanitary sewer	353
Plant rated capacity-million gallons per day	47

Financial Assistance Section 

Independent Auditor's Report on Compliance and Internal Control Over Financial Reporting

To the Mayor and City Council
City of Waterloo, Iowa

We have audited the financial statements of the City of Waterloo, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated January 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that are described in Section V of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City'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 internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the City'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 Section II of the accompanying Schedule of Findings and Questioned Costs.

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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected in a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above. However, in our judgment, comment numbers 04-II-A, 04-II-B, 04-II-C and 04-II-D are material weaknesses.

This report is intended solely for the information and use of the management and the City Council of the City of Waterloo and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

HOGAN - HANSEN

HOGAN - HANSEN

Waterloo, Iowa
January 25, 2005

Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Passenger Facility Charges and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Passenger Facility Charge Audit Guide for Public Agencies

To the Mayor and City Council
City of Waterloo, Iowa

Compliance

We have audited the compliance of the City of Waterloo, Iowa, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and in the *Passenger Facility Audit Guide for Public Agencies (Guide)* that are applicable to each of its major federal programs and its Passenger Facility Charge Program for the year ended June 30, 2004. The City of Waterloo, Iowa's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs, while its Passenger Facility Charge Program is shown in the accompanying Schedule of Passenger Facility Charges Collected and Expended. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs and its Passenger Facility Charge Program is the responsibility of the City of Waterloo, Iowa's management. Our responsibility is to express an opinion on the City of Waterloo, Iowa'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; Chapter 11 of the Code of Iowa; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and the *Passenger Facility Charge Audit Guide for Public Agencies (Guide)*. Those standards, OMB Circular A-133 and the Guide 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 and about whether the City of Waterloo, Iowa, complied with the regulations issued by the Federal Aviation Administration of the U.S. Department of Transportation to implement Sections 9110 and 9111 of the Aviation Safety and Capacity Expansion Act of 1990, noncompliance with which would be material to the Passenger Facility Charge Program. An audit includes examining, on a test basis, evidence about the City of Waterloo, Iowa's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Waterloo, Iowa's compliance with those requirements.

In our opinion, the City of Waterloo, Iowa, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs and its passenger facility charge program for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the City of Waterloo, Iowa, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Waterloo, Iowa's internal control over compliance with requirements that could have a direct and material effect on a major federal program or the Passenger Facility Charge Program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133 and the *Passenger Facility Charge Audit Guide for Public Agencies*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program or the Passenger Facility Charge Program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

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

HOGAN - HANSEN

HOGAN - HANSEN

Waterloo, Iowa
January 25, 2005

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2004

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Catalog of Federal Domestic Assistance Number	Other Applicable Number	Federal Program/ Cluster Expenditures
Department of Commerce			
Direct			
Grants for Public Works and Economic Development Facilities.....	11.300	05-01-03167 05-01-03718	\$ 128,791 <u>299,025</u>
Total Department of Commerce			<u>427,816</u>
Department of Housing and Urban Development			
Direct			
Community Development Block Grants/ Entitlement Grants (Note 2)	14.218		1,801,692
HOME Investment Partnerships Program (Note 2)...	14.239		900,675
Fair Housing Assistance Program - State and Local Public and Indian Housing (Note 3)	14.401	FF207K027014	115,273
Section 8 Housing Choice Vouchers.....	14.850		142,545
Section 8 Housing Choice Vouchers.....	14.871		5,094,978
Public Housing Capital Fund.....	14.872		56,881
Lead-Based Paint Hazard Control in Privately Owned Housing	14.900	IAL-HB-0248-03	70,899
Title 1, VA-HUD Independent Agencies Appropriations Act for FY 2001, PL 106-988	14.XXX	B-01-NI-IA-WL-0003	109,571
Public Law 107-73, FY2002 Appropriations Act.....	14.XXX	B-02-SPIA 0180	220,830
Public Law 108-7, FY 2003 Appropriations Act for HUD and other agencies	14.XXX	B-03-SPIA 0192	<u>18,163</u>
Total Direct.....			<u>8,531,507</u>
Indirect			
Pass Through Iowa Department of Economic Development			
Emergency Shelter Grants Program	14.231	02-ES-001 03-ES-001	16,352 <u>141,592</u>
			<u>157,944</u>
Total Department of Housing and Urban Development.....			<u>8,689,451</u>

The accompanying notes are an integral part of this schedule.

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2004

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Catalog of Federal Domestic Assistance Number	Other Applicable Number	Federal Program/Cluster Expenditures
Department of Justice			
Direct			
Local Law Enforcement Block Grants Program	16.592	2001-LB-BX-1341	\$ 3,868
		2002-LB-BX-2733	43,205
		2003-LB-BX-0419	<u>34,514</u>
			<u>81,587</u>
Bulletproof Vest Partnership Program.....	16.607	2002-SH-WX-0480	<u>15,409</u>
Public Safety Partnership and Community Policing Grants	16.710	2002-SH-WX-0480	48,192
		2002-CK-WX-0342	207,014
		2003-OM-WX-0086	<u>15,207</u>
			<u>270,413</u>
Total Direct.....			<u>367,409</u>
Indirect			
Pass Through Iowa Department of Human Rights, Division of Criminal and Juvenile Justice Planning Juvenile Accountability Incentive Block Grant	16.523	06-JD01-F502	2,775
		JAB-S04-46	<u>16,492</u>
Total Indirect			<u>19,267</u>
Pass Through Iowa Governor's Alliance on Substance Abuse Drug Control and System Improvement Substance Abuse Prevention - Byrne Formula Grant Program.....	16.579	03A-0236	<u>102,826</u>
Pass Through Iowa Governor's Alliance of Drug Control Policy			
Community Prosecution and Project Safe Neighborhoods.....	16.609	03-ND02	<u>7,246</u>
Public Safety Partnership and Community Policing Grants.....	16.710	DNE191AS02	<u>15,600</u>
Pass Through Iowa Department of Human Rights, Division of Criminal and Juvenile Justice Planning Enforcing Underage Drinking Laws Program	16.727	06-JD01-F502	<u>2,196</u>
Total Indirect			<u>147,135</u>
Total Department of Justice			<u>514,544</u>

The accompanying notes are an integral part of this schedule.

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2004

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Catalog of Federal Domestic Assistance Number	Other Applicable Number	Federal Program/ Cluster Expenditures
Department of Transportation			
Direct			
Federal Aviation Administration			
Airport Improvement Program	20.106	3-19-0094-22	\$ 414,276
Total Direct.....		3-19-0094-23	<u>20,848</u>
			<u>435,124</u>
Indirect			
Federal Highway Administration			
Pass Through Iowa Department of Transportation			
Highway Planning and Construction	20.205	STP-U-8155(31) & (34)--70-07	4,124
		STP-U-8155(651)--70-07	8,302
		STP-U-8155(651)--70-07	107,374
		STP-U-8155(657)--70-07	206,819
		BRM-8155(650) & STP-U-8155(652)	648,147
		STP-ES-8155(12)--8I-07	2,103
		STP-ES-8155(42)--8V-07	464,353
		STP-ES-8155(32)--8I-07	6,848
		STP-U-8155(616)--70-07	84,034
		STP-U-8155(656)--70-07	<u>238,056</u>
			<u>1,770,160</u>
National Highway Traffic Safety Administration			
Pass Through Iowa Department of Public Safety			
Governor's Traffic Safety Bureau			
Alcohol Traffic Safety and Drunk Driving			
Prevention Incentive Grants.....	20.601	PAP-02-410 Task 35	2,350
		PAP-04-410 Task 39	12,146
		PAP-03-410 Task 40	7,886
		PAP-04-163 Task 70	<u>12,058</u>
			<u>34,440</u>
Total Indirect			<u>1,804,600</u>
Total Department of Transportation			<u>2,239,724</u>

The accompanying notes are an integral part of this schedule.

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2004

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Catalog of Federal Domestic Assistance Number	Other Applicable Number	Federal Program/ Cluster Expenditures
National Foundation on the Arts and the Humanities			
Indirect			
National Endowment for the Arts			
Pass Through Iowa Arts Council			
Promotion of the Humanities - Federal/State Partnership.....	45.129	Various	\$ 13,435
Pass Through Humanities Iowa			
Promotion of the Humanities - Federal/State Partnership.....	45.129	Various	<u>6,038</u>
Total National Foundation on the Arts and the Humanities			<u>19,473</u>
Environmental Protection Agency			
Direct			
Brownfield Pilots Cooperative Agreements.....	66.811	BP-99791501-0	128,105
Brownfield Assessment and Cleanup Cooperative Agreements	66.818	BF-98736101-0	73,655
Appropriations Act of 1995			
Wastewater Treatment Facilities	66.XXX	XP99 7139 01	<u>483,647</u>
Total Environmental Protection Agency			<u>685,407</u>
Department of Health and Human Services			
Direct			
Center for Disease Control			
Injury Prevention and Control Research and State and Community Based Programs	93.136		<u>30,372</u>
Department of Homeland Security			
Direct			
Federal Emergency Management Agency			
Assistance to Firefighters Grant	97.044	EMW-2003-FG-09275	<u>31,867</u>
Total Expenditures of Federal Awards			<u>\$ 12,638,654</u>

The accompanying notes are an integral part of this schedule.

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2004

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Waterloo Iowa, and is presented using generally accepted accounting principles for local governmental units as prescribed in the statements issued by the Government Accounting Standards Board and other recognized authoritative sources. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements. Program expenditures include only amounts subject to reimbursement from the grantor agency or program income; thus, they are net of local matching.

Note 2. Subrecipients

Of the federal expenditures presented in the schedule, the City provided federal awards to 15 subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Community Development Block Grant - Entitlement Grants	14.218	\$ 412,743
HOME Investment Partnerships Program	14.239	512,224

Note 3. Program 14.850

The City's Waterloo Housing Authority has long-term debt payable to the Federal Financing Bank (FFB). Each November 1, the City receives a debt subsidy of \$86,364 as a principal and interest payment on the loan. The City records the subsidy as revenue and an expenditure for debt service. On June 30, 2004, the principal balance on the loan was \$738,249. Since there are continuing compliance obligations regarding the loan, the principal balance is considered federal financial assistance. Federal expenditures for the program consisted of the following:

Operating subsidy.....	\$	26,224
Debt subsidy.....		86,364
Drug elimination projects.....		29,957
Subtotal Cash Assistance		<u>142,545</u>
Loan balance		738,249
Total	\$	<u>880,794</u>

Note 4. Reconciliation of Intergovernmental Revenue to Expenditures of Federal Awards

Intergovernmental revenue of governmental fund types		\$ 19,963,676
Operating grant received by Sanitation Fund		274,988
Capital grants received by Sanitary Sewer Fund		<u>483,456</u>
Subtotal.....		20,722,120
Less State and Local Assistance Included Above		
Road use tax.....	\$ 5,725,767	
State and local grants and loans.....	1,644,236	
Other state and local intergovernmental	340,867	
Changes in federal revenue deferred	<u>372,596</u>	8,083,466
Total Expenditures of Federal Awards		<u>\$ 12,638,654</u>

Schedule of Findings and Questioned Costs

Year Ended June 30, 2004

Section I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
Material weakness identified? yes no
Reportable condition identified 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 identified? yes no
Reportable condition identified not considered to be
material weakness? 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 programs:

CFDA Numbers

Name of Federal Program or Cluster

11.300	Grants for Public Works and Economic Development Facilities
14.218	Community Development Block Grants/Entitlement Grants
14.871	Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish between Type A and
Type B programs: \$379,160

Auditee qualified as low-risk auditee? yes no

Schedule of Findings and Questioned Costs

Year Ended June 30, 2004

Section II: Findings Related to the Financial Statements:

Instances of Noncompliance:

There were no reported prior or current year instances of noncompliance.

Internal Control Over Financial Reporting

Prior year reportable conditions which have not been resolved are repeated below as findings 04-II-A and B.

04-II-A Improve Cash Flow Through Timely Billing

Prior Year Finding and Recommendation - Not all billings are promptly prepared. Many billings are not posted to the City's accounts receivable system. As a result, cash is sometimes not timely received. In addition, revenue, receivables and intracity activity is not always timely recorded and expenditure control over intracity charges is difficult to maintain.

To timely expedite receipt of cash, we recommend that nonmanagement staff be assigned invoicing duties to be performed monthly (for standard items) or as the receivable arises, whichever is applicable. Management should review timing and detail of the invoicing and ensure there has been prompt posting to accounts receivable. Invoicing should be completed monthly for intracity items including health care, benefits and administration costs and external items including COBRA. Billings recorded to receivables should include grants and services performed for others.

Current Year Finding - Some intracity activity has been more timely recorded. For other items, we found that the same conditions noted above continue to exist.

Auditor's Recommendation - We reiterate our prior year recommendations.

City's Response - The City has implemented additional procedures to help identify all amounts due the City. Staffing constraints cause delays in some invoicing processes. The City will continue to evaluate the ability to add resources to implement additional or new procedures to be followed in order to improve cash flows through timely billings.

Auditor's Conclusion - Response accepted.

04-II-B Improve Cash Flow Through Monitoring of Receivables

Prior Year Finding and Recommendation - While many receivables are recorded in the City's general ledger as billed, other receivables, such as intergovernmental receivables, are not recorded in the general ledger. Little follow-up work regarding timely collection is being performed on the receivables which are recorded or unrecorded. Monthly listings and reconciliations are sometimes not produced and/or reviewed. Many individual old receivables were noted that had no documentation of collection procedures performed. As a result, receivables are not always recorded in the proper accounting period and collection of revenue may be delayed or lost.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2004

To improve cash flow and maintain control over receivables, we recommend that general ledger accounts be set up for intergovernmental receivables and that those receivables be recorded in the general ledger, as billed. For all receivable accounts, detail listings and agings should be printed monthly. The detail listing total should then be reconciled to the general ledger balance and the aging total. Delinquent receivables in the aging should then be reviewed and action taken to collect the receivables. Documentation of the work done should be provided to and reviewed by management.

Current Year Finding - We found that, for certain receivables, old balances were collected or assessed against property while for other receivables and credit balances the same conditions noted above continue to exist.

Auditor's Recommendation - For the areas not yet resolved, we reiterate our prior year recommendations.

City's Response - The City has implemented procedures to review accounts receivable agings monthly and pursue slow-paying and delinquent accounts. The City has revised project reporting and accounting procedures so that intergovernmental receivables can be tracked more efficiently. The City will continue to evaluate the ability to devote additional resources to recording and monitoring accounts receivable.

Auditor's Conclusion - Response accepted.

04-II-C Proper Expenditure and Accounts Payable Reporting

Finding - Generally accepted accounting principles require that a liability and an expenditure be recorded when goods or services are received. During our audit we noted that the City enters into various contracts with local nonprofit agencies that serve as subrecipients under state and federal grants. The services received by the City for the months of April, May and June, 2004 under one of these contracts totaling over \$100,000 was not accrued by the City at June 30, 2004. The underaccrual was detected as part of our audit procedures and was corrected with an audit adjustment.

Auditor's Recommendation - We recommend that procedures be implemented requiring each department to provide to the Finance Department, an ongoing list of contracts over a certain dollar amount that are being entered into which do not require City Council approval. This would provide the Finance Department a method to monitor activities which may be creating liabilities that need to be recorded to the City's financial statements.

City's Response - We believe this underaccrual occurred because the City department head was waiting for additional information from the subrecipient before approving the request for payment, and failed to inform the Finance Department of the obligation. The City will consider additional methods to compile information about the various contracts that the City is entering into in order to prevent material liabilities from being overlooked.

Auditor's Conclusion - Response accepted.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2004

04-II-D Proper Revenue and Receivable Reporting

Finding - To be in accordance with GAAP, receivables should be reported when the underlying revenue is earned. Donations and grants with no continuing compliance requirements are considered earned when pledged or accrued by the donor/grantor. The City appoints two representatives to the Black Hawk County Solid Waste Management Commission (Commission), a jointly governed entity that oversees the operations of solid waste disposition in Black Hawk County. We noted that the Commission had made grants prior to June 30, 2003 and 2004 to the local governments that make up the Commission and accrued the liability for payment. However, no report was made to the City until the cash was received. The City's portion for each year to its Sanitation Fund was \$274,988. The City operates on a modified cash basis of accounting with a conversion to GAAP basis reporting at year end. The conversion is made through reviews of amounts collected shortly after year end which were earned or due before or at June 30. Since no report was made to the City Finance Department, Sanitation Fund receivables and net assets at June 30, 2003 and revenue for the year then ended were understated by \$274,988.

Auditor's Recommendation - In order to allow timely GAAP reporting, we recommend that appointees to boards and commissions timely report any financial decisions that affect the City and were made by the board or commission to the City's Finance Department.

City's Response - A formal request has been provided to the Mayor, Council members and City Clerk to provide copies of agenda packets and minutes of all city advisory boards and commissions to the Finance Department to help ensure that the transactions are properly recorded in the City's financial records.

Auditor's Conclusion - Response accepted.

Section III: Findings and Questioned Costs for Federal Awards:

Instances of Noncompliance

Prior year instances of noncompliance have been properly resolved. There were no reported current year instances of noncompliance.

Reportable Conditions

The prior year reportable condition has been resolved. No current year matters were reported.

Section IV: Findings and Questioned Costs for Passenger Facility Charges:

Instances of Noncompliance

There were no reported current year or prior year instances of noncompliance.

Reportable Conditions

There were no prior or current year matters reported.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2004

Section V: Findings Related to Statutory Reporting

Prior year findings related to statutory reporting have been resolved except for items 04-V-B, I and K.

04-V-A Official Depositories - A resolution naming official depositories has been approved by the City of Waterloo. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

04-V-B Certified Budget - Disbursements in the Health and Social Services Function exceeded the amended budget by \$1,216. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Auditor's Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

City's Response - This situation occurred due to unexpected requests for payment received after the budget was amended with payment made when requested. Further budgets by function will be increased to provide for such items.

Auditor's Conclusion - Response accepted.

04-V-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

04-V-D Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

04-V-E Business Transactions - There were no business transactions between the City of Waterloo and City officials or employees or members of their immediate families which may appear to be conflicts of interest.

04-V-F Bond Coverage - Surety bond coverage of the City of Waterloo officials and employees is in accordance with statutory provisions and was reviewed and updated during the year. We recommend that the amount of coverage continue to be reviewed annually to insure that the coverage is adequate for current operations.

04-V-G Council Minutes and Resolutions - No transactions were found that we believe should have been approved in the minutes but were not. Minutes of the City Council proceedings were published within 15 days as required by Chapter 372.13(6) of the Code of Iowa.

04-V-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2004

04-V-I Financial Condition - The Federal Projects, Special Revenue Fund, had a deficit balance at June 30, 2004 of \$841,635.

Auditor's Recommendations - The City should investigate alternatives to eliminate this deficit in order to return the fund to a sound financial position. The above fund had a deficit at June 30, 2003 of \$551,566.

City's Response - The deficit occurs because governmental accounting principles require that grant reimbursements not received within 60 days of year end be reported as deferred revenue, thereby creating a deficit fund balance. This is a temporary deficit which is cleared when the revenue is received. The City is implementing procedures to request these reimbursements in a more timely manner. However, there are situations when delays of more than 60 days are unavoidable, and therefore, this fund may continue to reflect a deficit balance at times.

Auditor's Conclusion - Response accepted.

04-V-J Revenue Bonds - The City has complied with the provisions of the revenue bond indentures. Information required by sewer revenue bond resolutions is reported in the statistical section.

04-V-K Airport Ordinance

Prior Year Finding and Recommendation - We noted that the City adopted ordinance number 4400 on December 13, 1999 which established an Airport Board of Directors and requires the Board to "Maintain a positive cash balance at all times in airport operations". Airport operations are accounted for in the General Fund (Fund 010), Airport Commission Department (Department number 29), Airport Administration Activity (activity number 7700). Through June 30, 2003, cash deficits totaled \$368,835.

To ensure the City is in compliance with its own ordinances, we recommend that the City either provide airport operations with additional cash resources to enable it to achieve and maintain a positive cash balance or amend the ordinance to repeal the positive cash balance requirement.

Current Year Finding - The City did not amend the airport ordinance to repeal the positive cash balance requirement. During the year ended June 30, 2004, airport operations incurred a cash loss of \$114,318, resulting in an accumulated cash deficit of \$483,153.

Auditor's Recommendation - We reiterate our prior year recommendation.

City's Response - It is the City's intent at this time to continue to require the positive cash balance, although City management realizes that the Airport may not be able to maintain that balance due to current economic conditions.

Auditor's Conclusion - Response accepted.

Schedule of Passenger Facility Charges Collected and Expended

Year Ended June 30, 2004

	Application Approval Number	Beginning Balance Unliquidated PFC	PFC Collections	Interest Earned	Expenditures	Ending Balance Unliquidated PFC
New master plan, 10%... Overlay runway 18/36 construction, 10%	94-01-C-00-ALO	\$ (1,223)	\$ 1,223	\$ —	\$ —	\$ — *
Terminal apron rehabilitation, 10%	94-01-C-00-ALO	10,892	(10,892)	—	—	— *
General aviation apron rehabilitation, 10%	97-02-C-00-ALO	2,367	(2,367)	—	—	— *
Replace snow blower, 10%	97-02-C-00-ALO	(4,892)	4,892	—	—	— *
Replace snow grader/ tractor, 10%	97-02-C-00-ALO	(3,178)	3,178	—	—	— *
Rehabilitate east general aviation apron, 10%	97-02-C-00-ALO	(950)	950	—	—	— *
Terminal building modernization - conceptual plan, Total	99-03-C-00-ALO	(9,230)	9,229	—	(1)	— *
Reconstruct Taxiway D, 10%	99-03-C-00-ALO	11,053	(11,053)	—	—	— *
Terminal building modernization - construction	99-03-C-00-ALO	(22,035)	22,030	—	(5)	— *
Runway 12-30 rejuvenation	01-04-C-00-ALO	133,790	73,153	—	206,943	— *
PFC annual audit and program administration	01-04-C-00-ALO	—	34,700	—	—	34,700
Part 139 guidance signs	03-05-C-00-ALO	—	22,563	106	12,413	10,256
Acquisition of snow removal equipment	03-05-C-00-ALO	—	38,000	—	—	38,000
Perimeter fencing	03-05-C-00-ALO	—	—	—	—	—
Acquisition of aircraft rescue and fire	03-05-C-00-ALO	—	—	—	—	—
Reconstruction of terminal area ramp	03-05-C-00-ALO	—	—	—	—	—
Total		\$ 116,594	\$ 185,606	\$ 106	\$ 219,350	\$ 82,956

* Project completed

Passenger Facility Charges (PFC's) are expended as the local match required for CFDA #20.106, Airport Improvement Program, as displayed on the Schedule of Expenditures of Federal Awards plus additional amounts approved by the Federal Aviation Administration (FAA).

The FAA Final Agency Decision (FAD) number 03-05-C-00-ALO was issued January 15, 2004 which authorized additional PFC collections of \$611,200 and approved usage of \$251,200 bringing cumulative amounts to \$2,337,039 and \$1,977,039 for collections and uses, respectively.

In January, 2003, the City requested approval from the FAA to allow balances in unliquidated PFC's and certain projects to be adjusted to revised amounts needed to close the projects. On March 11, 2004, the FAA issued amendments 94-01-C-02-ALO, 97-02-C-01-ALO, 99-30-C-01-ALO and 01-04-C-01-ALO which allowed closure of completed projects and deleted other projects. The net effect of the amendments was a reduction in both collection and use in the amount of \$279,015 resulting in cumulative remaining collection authority of \$2,058,024 and use authority of \$1,698,024. The City is authorized to collect \$360,000 for the reconstruction of the terminal area ramp but will have to obtain additional FAA approval before using PFC's on the ramp reconstruction.

Schedule of Passenger Facility Charges Cash Activity

Year Ended June 30, 2004

Description	Totals 7-1-03	Quarter #1	Quarter #2	Quarter #3	Quarter #4	Totals for Year	Totals 6-30-04
Passenger Facility							
Charges collected ...	\$ 1,296,704	\$ 38,483	\$ 44,563	\$ 41,468	\$ 61,092	\$ 185,606	\$ 1,482,310
Interest	25,070	29	25	24	28	106	25,176
Expended	<u>(1,205,180)</u>	<u>(59,045)</u>	<u>(46,129)</u>	<u>(35,349)</u>	<u>(78,827)</u>	<u>(219,350)</u>	<u>(1,424,530)</u>
Net	<u>\$ 116,594</u>	<u>\$(20,533)</u>	<u>\$ (1,541)</u>	<u>\$ 6,143</u>	<u>\$(17,707)</u>	<u>\$ (33,638)</u>	<u>\$ 82,956</u>