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WATERLOO COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2004

 **CARNEY,
ALEXANDER,
MAROLD & CO., L.L.P.**
Certified Public Accountants

WATERLOO COMMUNITY SCHOOL DISTRICT

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Waterloo Community School District

WATERLOO COMMUNITY SCHOOL DISTRICT

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Craig Holdiman	President	2003
Lance Dunn	Vice-President	2003
Doug Faas	Board Member	2003
Pam Miller	Board Member	2004
Don Hanson	Board Member	2004
Lyle Schmitt	Board Member	2005
Barb Opheim	Board Member	2005
Board of Education (After September 2003 Election)		
Pam Miller	President	2004
Barb Opheim	Vice-President	2005
Lyle Schmitt	Board Member	2005
Don Hanson	Board Member	2004
Bernice Richard	Board Member	2006
Doug Faas	Board Member	2006
Judy Fossell	Board Member	2006
School Officials		
Dr. Dewitt Jones	Superintendent	2005
Sharon Miller	District Secretary	2004
Jim Langstraat	District Treasurer	2004
Steve Weidner	Attorney	Indefinite
Gary Iversen	Attorney	Indefinite
Edgar Bittle	Attorney	Indefinite

Independent Auditors' Report

To the Board of Education of the
Waterloo Community School District

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Waterloo Community School District, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In accordance with Government Auditing Standards, we have also issued our reports dated November 5, 2004 on our consideration of Waterloo Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are 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.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 38 through 40 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 Waterloo Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinions on those financial statements. The supplementary information included on pages 41 through 48, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

November 5, 2004

Carney, Alexander, Marold & Co., L.L.P.

Management Discussion and Analysis

As management of the Waterloo Community School District, we offer readers of the Waterloo Community School District's financial statements this narrative overview and analysis of the financial activities of the Waterloo Community School District 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.

Financial Highlights

- The assets of the Waterloo Community School District exceeded its liabilities at the close of the most recent fiscal year by \$64,057,009 (net assets). Of this amount \$4,579,874 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The State of Iowa granted only a 2% allowable growth rate for the 2003-04 year. During the year there was a 2.5% reduction in state foundation aid. This followed a 1% allowable growth rate for 2002-03. This was the lowest growth rate in over 20 years. It followed a 4.3% reduction in State Foundation Aid during the 2001-02 year, which reduced state revenues by over \$2 million in the General Fund.
- The district converted the financial records and reporting system to be in compliance with the provisions of GASB 34.
- Interest Rates declined precipitously to an average investment rate of 1.02% in fiscal year 2004 from an average of 3.13% in fiscal year 2002 causing interest earnings in the General Fund alone to drop from \$413,003 in fiscal year 2002 to \$80,964 in fiscal year 2004.
- In an effort to balance the declining reserve trends in the General Fund, a total of \$2.5 million in budget cuts was implemented, including a reduction of 20 full time equivalent, (FTE) teaching staff, 30 FTE in support staff and administration. Additional reductions were made to administrative budgets.
- The District implemented an energy management program with estimated savings of approximately \$250,000.
- At June 30, 2004, the District was debt free.
- The Irving Elementary School, only the second new elementary school building in more than 30 years, was completed and put into service. Construction was on schedule and under the budget.
- Construction continued on the new Lincoln Elementary. This 72,000 square foot building will replace the current Lincoln and Roosevelt Elementary Schools. The opening is slated for August 2004. Plans for the new Lou Henry Elementary were developed and approved. Construction commenced in the spring with opening planned for August 2005.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Waterloo Community School District's basic financial statements. The Waterloo Community School District's basic financial statements comprise three components: 1) district-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.

District-wide financial statements. The district-wide financial statements are designed to provide readers with a broad overview of the Waterloo Community School District's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the Waterloo Community School District'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 Waterloo Community School District 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 the 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 district-wide financial statements distinguish functions of the Waterloo Community School District 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 Waterloo Community School District include regular and special education, transportation, plant operation and administration. The business-type activities include the food service and day care programs.

For financial reporting purposes, the District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and 1) the ability of the District to impose its will on that organization or 2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The District has no component units which meet the GASB criteria.

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 Waterloo Community School District, 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 Waterloo Community School District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the district-wide financial statements. However, unlike the district-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the district-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the district-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 Waterloo Community School District maintains five 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 and capital projects fund, both of which are considered to be major funds. Data from the other three 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.

The Waterloo Community School District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. The Waterloo Community School District maintains two enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the district-wide financial statements. The Waterloo Community School District uses enterprise funds to account for its food service and day care operations.

Proprietary funds provide the same type of information as the district-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the food service program and the day care program.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the district. Fiduciary funds are not reflected in the district-wide financial statements because the resources of those funds are not available to support the Waterloo Community School District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented in this section. Also included is a statistical section containing key financial and demographic information.

District-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 Waterloo Community School District, assets exceeded liabilities by \$64,057,009 at the close of the most recent fiscal year.

By far the largest portion of the Waterloo Community School District's net assets (90 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment). The Waterloo Community School District uses these capital assets to provide services to citizens: consequently these assets are not available for future spending.

Waterloo Community School District's Net Assets (amounts expressed in thousands)

	Governmental	Governmental	Business-type	Business-type	Total	Total
	Activities	Activities	Activities	Activities	2004	2003
	2004	2003	2004	2003		
Current and other assets	\$ 47,079	\$ 44,778	\$ 938	\$ 1,025	\$48,017	\$45,803
Capital Assets	56,181	45,173	1,736	1,643	57,917	46,816
Total Assets	103,260	89,951	2,674	2,668	105,934	92,619
Current Liabilities	41,818	36,524	59	158	41,877	36,682
Net Assets:						
Invested in capital assets	56,181	45,173	1,736	1,643	57,917	46,816
Restricted	1,560	1,561	-	-	1,560	1,444
Unrestricted	3,701	6,693	879	867	4,580	7,677
Total net assets	\$ 61,442	\$ 53,427	\$ 2,615	\$ 2,510	\$64,057	\$55,937

An additional portion of the Waterloo Community School District's net assets (2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$4,579,874) may be used to meet the district's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Waterloo Community School District is able to report positive balances in all three categories of net assets, both 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.

There was an increase of \$103,982 in net assets reported in connection with the Waterloo Community School District's business-type activities. Most of this increase resulted from food service equipment purchased through the Physical Plant and Equipment Levy Fund that was transferred to the Nutrition Fund.

The district's net assets increased by \$8,119,452 during the current fiscal year. The district's capital assets, including the facilities acquisition and construction activities, increased by \$11,100,953. The remaining decrease

represents the degree to which increases in ongoing expenses have outstripped similar increases in ongoing revenues. The primary explanation of the decreased revenue flow was the mid-year reduction in state foundation aid.

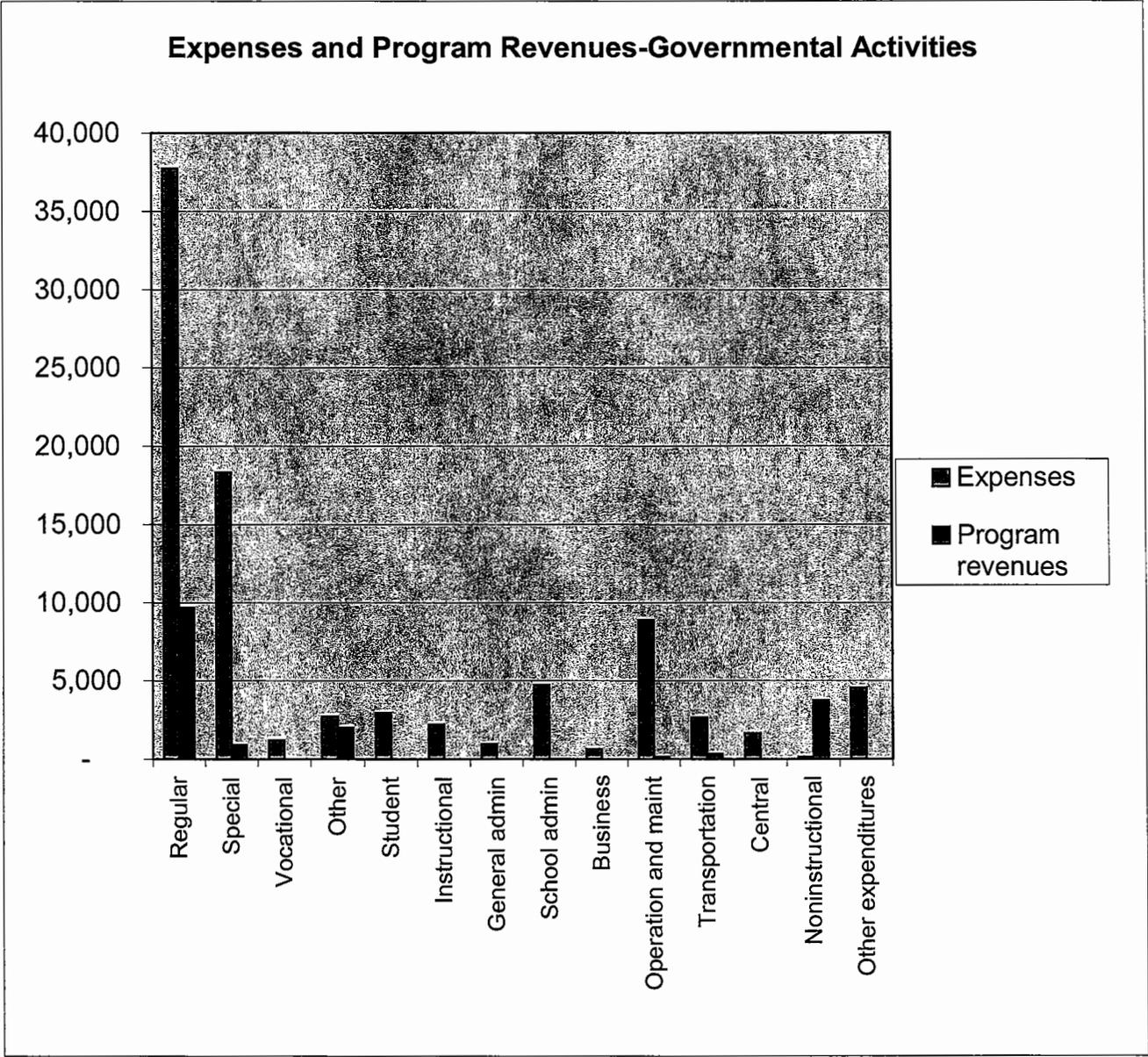
Governmental Activities. Governmental activities increased the Waterloo Community School District's net assets by \$8,015,470, thereby accounting for 99 percent of the total growth in the net assets of the Waterloo Community School District. Key elements of this increase are as follows:

Waterloo Community School District's Changes in Net Assets
(amounts expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	\$ 2,633	\$ 2,829	\$ 1,539	\$ 1,550	\$ 4,172	\$ 4,379
Operating grants and contributions	13,772	13,629	2,643	2,578	16,415	16,207
Capital grants and contributions	406	1,452	-	-	406	1,452
General revenues:						
Property taxes	29,043	28,226	-	-	29,043	28,226
Local option taxes	9,413	8,810	-	-	9,413	8,810
Unrestricted state grants	42,038	41,215	11	-	42,049	41,215
Unrestricted investment earnings	112	824	-	7	112	831
Other	214	203	-	-	214	203
Total revenues	97,631	97,188	4,193	4,135	101,824	101,323
Expenses:						
Regular instruction	37,748	35,459	-	-	37,748	35,459
Special instruction	18,314	18,355	-	-	18,314	18,355
Vocational instruction	1,200	1,284	-	-	1,200	1,284
Other instruction	2,719	3,300	-	-	2,719	3,300
Student services	2,935	2,374	-	-	2,935	2,374
Instructional staff services	2,206	2,308	-	-	2,206	2,308
General administration services	969	987	-	-	969	987
School administration services	4,733	4,522	-	-	4,733	4,522
Business services	660	635	-	-	660	635
Operation and maintenance	8,884	7,680	-	-	8,884	7,680
Transportation services	2,636	2,381	-	-	2,636	2,381
Central services	1,656	1,039	-	-	1,656	1,039
Noninstructional programs	128	153	4,386	4,106	4,514	4,259
Other expenditures	4,531	5,094	-	-	4,531	5,094
Total expenses	89,319	85,571	4,386	4,106	93,705	89,677
Increase in net assets before transfers	8,312	11,617	(193)	29	8,119	11,646
Transfers	(297)	(229)	297	229	-	-
Increase in net assets	8,015	11,388	104	258	8,119	11,646
Net assets-7/1	53,427	42,039	2,510	2,252	55,937	44,291
Net assets-6/30	\$ 61,442	\$ 53,427	\$ 2,614	\$ 2,510	\$ 64,056	\$ 55,937

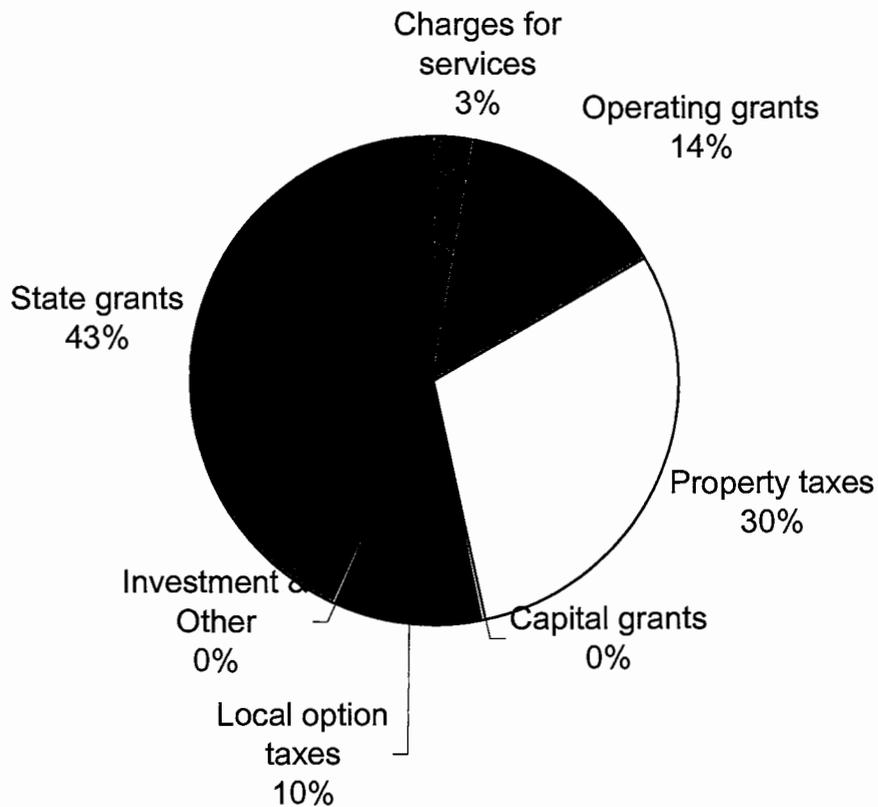
Property taxes increased by \$816,857 (2.9 percent) during the year. This increase was due to an increase in student enrollment, the need to replenish the cash reserve after the reduction in state aid in the 2001-2002 fiscal year, and to cover the increased cost of liability insurance.

Operating grants for governmental activities increased by \$142,820 (1.0 percent), mostly as a result of an aggressive grant application strategy undertaken by the Waterloo Community School District during the current fiscal year. The new grant awards furnished resources to support three of the Waterloo Community School District's functions: regular instruction, special instruction and facilities acquisition. Obtaining grant funding has been a crucial strategy of the district to help offset reductions in state funding.



(amounts expressed in thousands)

Revenues by Source-Governmental Activities

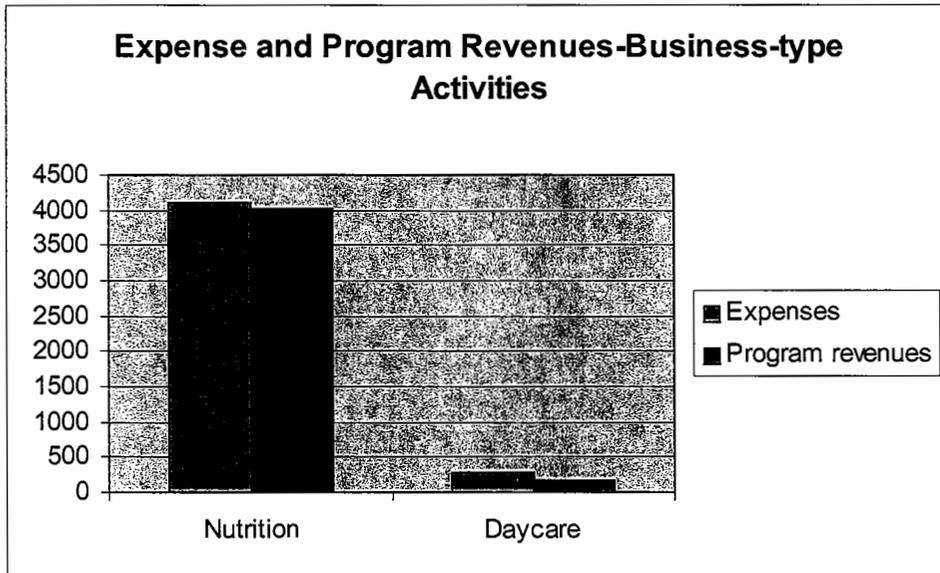


For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. One noteworthy exception occurs in the other expenditure category. Depreciation of assets was over \$1,000,000 (26% of the other expenditure category and 1% of all expenses) and reflects the gradual consumption of the asset over its useful life.

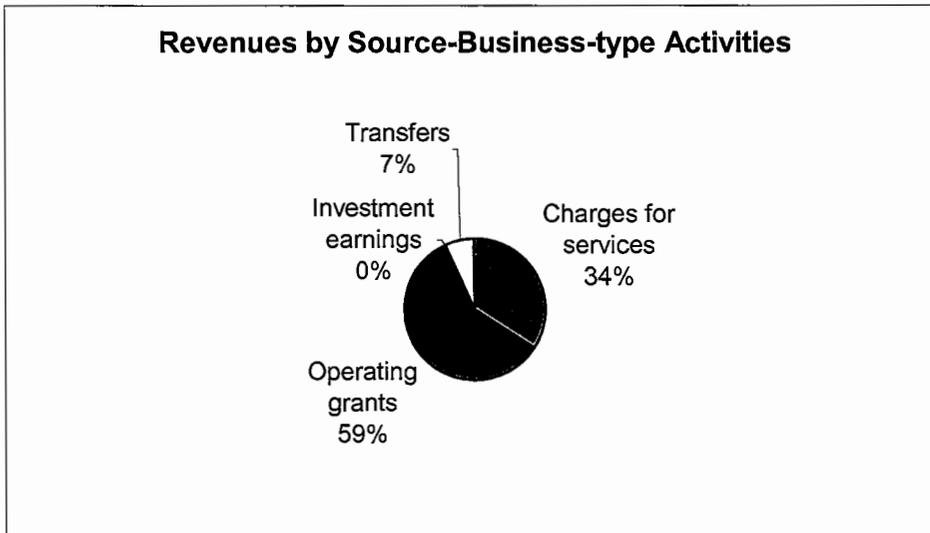
Business-type activities. Business type activities increased the Waterloo Community School District's net assets by \$103,982 accounting for 1 percent of the total growth in the district's net assets. Key elements of this increase are as follows:

- Most of this increase resulted from food service equipment purchased through the Physical Plant and Equipment Levy Fund that was transferred to the Nutrition Fund as part of the remodeling of the kitchen at Bunger Middle school.
- A closed lunch policy was implemented at the high schools during the 2002-03 year resulting in a significant increase in the number of meals served.

- The daycare facility did not receive all the anticipated grant revenue and experienced an operating loss for the year.



(amounts expressed in thousands)



Financial Analysis of the Government's Funds

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

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

At the end of the current fiscal year, the Waterloo Community School District's governmental funds reported combined ending fund balances of \$5,529,527, a decrease of \$2,365,722 in comparison with the prior year. \$4,862,145 (88 percent) constitutes unreserved fund balance, which is available for spending at the district's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders (\$667,382).

The general fund is the chief operating fund of the Waterloo Community School District. At the end of the current fiscal year, unreserved fund balance of the general fund was \$2,645,367, while total fund balance reached \$3,309,738. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 3 percent of total general fund expenditures, while total fund balance represents 4 percent of that same amount.

The fund balance of the Waterloo Community School District's general fund decreased by \$1,353,936 during the current fiscal year. Key factors in this decrease are as follows:

- The State of Iowa granted a 2% allowable growth rate for the 2003-04 year. During the 2003-04 year the State of Iowa projected a revenue shortfall and established a 2.5% reduction in state funding. The district utilized cash reserve to absorb this reduction without reducing services. The State of Iowa granted only a 1% allowable growth rate for the 2002-03 year. This was the lowest growth rate in over 20 years. It followed a 4.3% reduction in State Foundation Aid during the 2001-02 year, which reduced state revenues by over \$2 million in the general fund.
- Logan Middle School was identified as a school in need of improvement under the provisions of the No Child Left Behind Act. District interventions included additional staff training, additional administrative assistance and the implementation of a new reading program.
- Declining interest rates and a reduced fund balance due to state aid cuts led to a reduction in interest on investments of more than \$275,000.

The capital projects fund balance decreased by \$1,333,944 due primarily to the number and timing of construction projects in process. Construction was completed for the Irving Elementary school while construction continued on the new Lincoln Elementary school.

Proprietary funds. The Waterloo Community School District proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the food service fund at the end of the year amounted to \$960,377, and those for the daycare operation amounted to \$(81,615). The total growth in net assets for both funds was \$2,891 and \$8,002, respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Waterloo Community School District's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were relatively minor \$2,000,000 (2 percent) and can be briefly summarized as follows:

- \$500,000 to adjust for the additional number of meals served due to having closed lunch at the high schools.
- \$1,500,000 to adjust for the receipt of fire safety and Iowa demonstration construction grants and to expend the carryover balance from the previous year.

All of this increase was funded out of increases in revenues or unexpended balances brought forth from the previous year. During the year, however, revenues exceeded budgetary estimates, thus eliminating the need to draw upon existing fund balance.

Capital Asset and Debt Administration

Capital assets. The Waterloo Community School District's investment in capital assets for its governmental and business-type activities as of June 30, 2004 amounts to \$57,916,909 (net of accumulated depreciation). This investment in capital assets includes land, buildings and site improvements, construction in progress and machinery and equipment. The total increase in the Waterloo Community School District's investment in capital assets for the current fiscal year was 24 percent (a 24 percent increase for governmental activities and a 6 percent increase for business-type activities).

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

- The Irving Elementary school, only the District's second new elementary school building in more than 30 years was completed and put into service. Construction was on schedule and under budget.
- Construction continued on the new Lincoln Elementary. This 72,000 square foot building will replace the current Lincoln Elementary and Roosevelt Elementary. Construction commenced in the spring with opening planned for August 2004.
- An expansion of Bunger Middle School was completed, adding 15 classrooms totaling 15,000 square feet.

Waterloo Community School District's Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land and site improvements	\$ 2,160	\$ 1,718	\$ -	\$ -	\$ 2,160	\$ 1,718
Buildings	38,482	27,676	-	-	38,482	27,676
Machinery and equipment	6,509	6,034	1,736	1,643	8,245	7,677
Construction in progress	9,030	9,745	-	-	9,030	9,745
Total	56,181	45,173	1,736	1,643	57,917	46,816

(amounts expressed in thousands)

Additional information on the Waterloo Community School District's capital assets can be found in the notes to the financial statements.

Long-term debt. At the end of the current fiscal year, the Waterloo Community School District had no bonded indebtedness. During the current year the Waterloo Community School District borrowed \$890,000 from the Iowa School Cash Anticipation Program to cover short-term cash flow needs. The amount was repaid before the end of the fiscal year.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the Waterloo Community School District is currently 4.8 percent, which is an increase from a rate of 3.9 percent a year ago. Most of the increased unemployment has come from staff reduction in the local government (city, school and county) sector.
- The ACCRA Cost of Living Index composite score for Waterloo is 93.2% demonstrating the cost of living in Waterloo is below the national average of 100%. Both housing and health care costs were below 90% of the national average.
- Inflationary trends in the region compare favorably to national indices.
- The state legislature established a growth rate of 2 percent for the 2004-05 fiscal year.
- The state legislature had established a growth rate of 4 percent for the 2005-06 fiscal year. It is uncertain whether this pledge will be honored. The revenues generated by a growth rate of 4 percent would not be sufficient to cover salary and benefit increases and further staff reduction may be necessary.
- Student enrollment has shown modest gains while enrollment statewide and in most districts is declining.

All of these factors were considered in preparing the Waterloo Community School District's budget for the 2005 fiscal year and will be crucial in developing the budget for the 2006 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the Waterloo Community School District's finances for all those with an interest in the district's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Jim Langstraat, Executive Director of Administrative Services, Waterloo Community School District, 1516 Washington Street, Waterloo, Iowa 50702.

Basic Financial Statements

WATERLOO COMMUNITY SCHOOL DISTRICT

Statement of Net Assets June 30, 2004

	Governmental Activities	Business type Activities	Total
Assets			
Cash and cash equivalents	\$ 11,509,169	\$ 850,221	\$ 12,359,390
Receivables:			
Property tax:			
Delinquent	386,937	-	386,937
Succeeding year	31,015,367	-	31,015,367
Accounts	905	16,764	17,669
Due from other governments	3,313,564	-	3,313,564
Internal balances	67,183	(67,183)	-
Inventories	111,728	110,728	222,456
Prepays	674,144	27,246	701,390
Capital assets, net of accumulated depreciation:			
Land	1,106,733	-	1,106,733
Construction in progress	9,030,739	-	9,030,739
Other capital assets	46,043,737	1,735,700	47,779,437
Total assets	103,260,206	2,673,476	105,933,682
Liabilities			
Accounts payable	3,754,342	10,512	3,764,854
Salaries and benefits payable	6,031,763	48,502	6,080,265
Deferred revenue, succeeding year property tax	31,015,367	-	31,015,367
Long-term liabilities:			
Portion due within one year:			
Compensated absences	176,187	-	176,187
Portion due more than one year:			
Early retirement	840,000	-	840,000
Total liabilities	41,817,659	59,014	41,876,673
Net assets			
Invested in capital assets	56,181,209	1,735,700	57,916,909
Restricted for:			
Physical plant and equipment levy	158,662	-	158,662
Other special revenue purposes	1,401,564	-	1,401,564
Unrestricted	3,701,112	878,762	4,579,874
Total net assets	\$ 61,442,547	\$ 2,614,462	\$ 64,057,009

See notes to financial statements.

WATERLOO COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grant, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities				
Instruction:				
Regular instruction	\$ 37,748,340	\$ 418,306	\$ 9,257,614	\$ -
Special instruction	18,313,766	347,454	564,801	-
Vocational instruction	1,200,357	-	-	-
Other instruction	2,718,892	1,719,403	282,871	-
	<u>59,981,355</u>	<u>2,485,163</u>	<u>10,105,286</u>	<u>-</u>
Support services:				
Student services	2,934,627	-	-	-
Instructional staff services	2,206,134	-	-	-
General administration services	968,569	-	-	-
School administration services	4,732,969	-	-	-
Business services	660,422	-	-	-
Operation and maintenance	8,883,758	143,289	-	-
Transportation services	2,636,473	4,775	306,617	-
Central services	1,656,007	-	-	-
Facilities acquisition	(34,591)	-	-	405,793
AEA flowthrough	3,360,178	-	3,360,178	-
Depreciation (unallocated)	1,196,916	-	-	-
Loss on disposal of capital assets	8,252	-	-	-
	<u>29,209,714</u>	<u>148,064</u>	<u>3,666,795</u>	<u>405,793</u>
Noninstructional programs	<u>127,601</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>89,318,670</u>	<u>2,633,227</u>	<u>13,772,081</u>	<u>405,793</u>
Business Type Activities				
Noninstructional programs:				
Nutrition services	4,110,189	1,531,308	2,483,519	-
Day care services	285,532	7,664	168,989	-
	<u>4,395,721</u>	<u>1,538,972</u>	<u>2,652,508</u>	<u>-</u>
Total	<u>\$ 93,714,391</u>	<u>\$ 4,172,199</u>	<u>\$ 16,424,589</u>	<u>\$ 405,793</u>

Continued on following page.

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
\$ (28,072,420)	\$ -	\$ (28,072,420)
(17,401,511)	-	(17,401,511)
(1,200,357)	-	(1,200,357)
(716,618)	-	(716,618)
<u>(47,390,906)</u>	<u>-</u>	<u>(47,390,906)</u>
(2,934,627)	-	(2,934,627)
(2,206,134)	-	(2,206,134)
(968,569)	-	(968,569)
(4,732,969)	-	(4,732,969)
(660,422)	-	(660,422)
(8,740,469)	-	(8,740,469)
(2,325,081)	-	(2,325,081)
(1,656,007)	-	(1,656,007)
440,384	-	440,384
-	-	-
(1,196,916)	-	(1,196,916)
(8,252)	-	(8,252)
<u>(24,989,062)</u>	<u>-</u>	<u>(24,989,062)</u>
(127,601)	-	(127,601)
<u>(72,507,569)</u>	<u>-</u>	<u>(72,507,569)</u>
-	(95,362)	(95,362)
-	(108,879)	(108,879)
<u>-</u>	<u>(204,241)</u>	<u>(204,241)</u>
<u>(72,507,569)</u>	<u>(204,241)</u>	<u>(72,711,810)</u>

WATERLOO COMMUNITY SCHOOL DISTRICT

Statement of Activities, continued

Year ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grant, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
General Revenues:				
Taxes:				
Property taxes, levied for general purposes				
Local option taxes, levied for capital outlay				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets beginning of year				
Net assets end of year				

See notes to financial statements.

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
29,043,224	-	29,043,224
9,413,025	-	9,413,025
42,037,875	-	42,037,875
112,191	11,218	123,409
213,729	-	213,729
<u>(297,005)</u>	<u>297,005</u>	<u>-</u>
<u>80,523,039</u>	<u>308,223</u>	<u>80,831,262</u>
8,015,470	103,982	8,119,452
<u>53,427,077</u>	<u>2,510,480</u>	<u>55,937,557</u>
<u>\$ 61,442,547</u>	<u>\$ 2,614,462</u>	<u>\$ 64,057,009</u>

WATERLOO COMMUNITY SCHOOL DISTRICT

**Balance Sheet
Governmental Funds
June 30, 2004**

Assets	General	Capital Projects	Other Nonmajor Governmental Funds	Total Governmental Funds
Cash and pooled investments	\$ 8,721,538	\$ 8,034	\$ 2,779,597	\$ 11,509,169
Receivables:				
Property tax:				
Delinquent	327,703	-	59,234	386,937
Succeeding year	26,613,942	-	4,401,425	31,015,367
Accounts	526	-	379	905
Interfund receivable	67,183	460,491	-	527,674
Due from other governments	1,550,037	1,597,449	166,078	3,313,564
Inventories	111,728	-	-	111,728
Prepays	664,371	3,011	6,762	674,144
	<u>\$ 38,057,028</u>	<u>\$ 2,068,985</u>	<u>\$ 7,413,475</u>	<u>\$ 47,539,488</u>
Total assets				
	<u>\$ 38,057,028</u>	<u>\$ 2,068,985</u>	<u>\$ 7,413,475</u>	<u>\$ 47,539,488</u>
 Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 1,870,423	\$ 1,409,422	\$ 474,497	\$ 3,754,342
Salaries and benefits payable	5,514,927	-	516,836	6,031,763
Interfund payable	-	-	460,491	460,491
Deferred revenue:				
Succeeding year property tax	26,613,942	-	4,401,425	31,015,367
Other	747,998	-	-	747,998
Total liabilities	<u>34,747,290</u>	<u>1,409,422</u>	<u>5,853,249</u>	<u>42,009,961</u>
Fund balance:				
Reserved for:				
Prepays	664,371	3,011	-	667,382
Unreserved:				
Designated for buses	621,500	-	-	621,500
Undesignated	2,023,867	656,552	-	2,680,419
Reported in nonmajor Special Revenue funds	-	-	1,560,226	1,560,226
Total fund balances	<u>3,309,738</u>	<u>659,563</u>	<u>1,560,226</u>	<u>5,529,527</u>
Total liabilities and fund balances	<u>\$ 38,057,028</u>	<u>\$ 2,068,985</u>	<u>\$ 7,413,475</u>	<u>\$ 47,539,488</u>

See notes to financial statements.

WATERLOO COMMUNITY SCHOOL DISTRICT

**Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2004**

Total governmental fund balances	\$ 5,529,527
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.	56,181,209
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the governmental funds.	747,998
Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.	<u>(1,016,187)</u>
Net assets of governmental activities	<u><u>\$ 61,442,547</u></u>

See notes to financial statements.

WATERLOO COMMUNITY SCHOOL DISTRICT

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

	General	Capital Projects	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property and other local taxes	\$ 24,854,250	\$ 9,413,025	\$ 4,188,972	\$ 38,456,247
Other local sources	1,271,852	11,292	1,592,920	2,876,064
Intermediate sources	-	138,278	-	138,278
State sources	48,548,117	161,712	12,652	48,722,481
Federal sources	6,642,767	260,969	144,824	7,048,560
Total revenues	<u>81,316,986</u>	<u>9,985,276</u>	<u>5,939,368</u>	<u>97,241,630</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	35,890,387	-	656,849	36,547,236
Special instruction	18,270,906	-	-	18,270,906
Vocational instruction	1,281,012	-	-	1,281,012
Other instruction	972,852	-	1,558,570	2,531,422
	<u>56,415,157</u>	<u>-</u>	<u>2,215,419</u>	<u>58,630,576</u>
Support services:				
Student services	2,925,962	-	6,760	2,932,722
Instructional staff services	2,160,599	-	15,211	2,175,810
General administration services	949,017	-	23,731	972,748
School administration services	4,477,312	-	251,602	4,728,914
Business services	631,155	-	34,822	665,977
Operation and maintenance	7,233,103	-	3,036,745	10,269,848
Transportation services	2,633,532	-	829	2,634,361
Central services	1,624,221	-	13,086	1,637,307
Facilities acquisition and construction	-	11,132,215	-	11,132,215
AEA flowthrough	3,360,178	-	-	3,360,178
	<u>25,995,079</u>	<u>11,132,215</u>	<u>3,382,786</u>	<u>40,510,080</u>
Noninstructional programs	<u>150,686</u>	<u>-</u>	<u>19,005</u>	<u>169,691</u>
Total expenditures	<u>82,560,922</u>	<u>11,132,215</u>	<u>5,617,210</u>	<u>99,310,347</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,243,936)</u>	<u>(1,146,939)</u>	<u>322,158</u>	<u>(2,068,717)</u>
Other financing uses:				
Transfers out	<u>(110,000)</u>	<u>(187,005)</u>	<u>-</u>	<u>(297,005)</u>
Total other financing uses	<u>(110,000)</u>	<u>(187,005)</u>	<u>-</u>	<u>(297,005)</u>
Net change in fund balances	(1,353,936)	(1,333,944)	322,158	(2,365,722)
Fund balances beginning of year	4,663,674	1,993,507	1,238,068	7,895,249
Fund balances end of year	<u>\$ 3,309,738</u>	<u>\$ 659,563</u>	<u>\$ 1,560,226</u>	<u>\$ 5,529,527</u>

See notes to financial statements.

WATERLOO COMMUNITY SCHOOL DISTRICT

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

Net change in fund balances - total governmental funds \$ (2,365,722)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as depreciation expense in the statement of activities. This is the amount by which capital outlays exceed depreciation in the period.

Capital outlays	\$ 13,374,252	
Depreciation expense	<u>(2,358,136)</u>	11,016,116

The net effect of the disposal of capital assets is to decrease net assets. (8,252)

Certain revenue not collected for several months after year end is not considered available in the governmental funds and is deferred. However, it is recorded as revenue in the statement of activities. 389,515

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

Compensated absences and early retirement	<u>(1,016,187)</u>
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Change in net assets of governmental activities \$ 8,015,470

WATERLOO COMMUNITY SCHOOL DISTRICT

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

Assets	School Nutrition	Day Care	Total Enterprise Funds
Current assets:			
Cash and pooled investments	\$ 850,221	\$ -	\$ 850,221
Accounts receivable	724	16,040	16,764
Inventories	110,728	-	110,728
Prepays	27,246	-	27,246
Total current assets	988,919	16,040	1,004,959
Noncurrent assets:			
Capital assets, net of accumulated depreciation	1,547,898	187,802	1,735,700
Total assets	2,536,817	203,842	2,740,659
Liabilities			
Current liabilities:			
Accounts payable	10,326	186	10,512
Salaries and benefits payable	18,216	30,286	48,502
Due to other funds	-	67,183	67,183
Total current liabilities	28,542	97,655	126,197
Total liabilities	28,542	97,655	126,197
Net assets			
Invested in capital assets	1,547,898	187,802	1,735,700
Unrestricted	960,377	(81,615)	878,762
Total net assets	\$ 2,508,275	\$ 106,187	\$ 2,614,462

See notes to financial statements.

WATERLOO COMMUNITY SCHOOL DISTRICT

**Statement of Revenues, Expenses and Changes in Net Assets
Propriety Funds
Year ended June 30, 2004**

	School Nutrition	Day Care	Total Enterprise Funds
Operating revenue:			
Local sources:			
Charges for service	<u>\$1,531,308</u>	<u>\$ 7,664</u>	<u>\$ 1,538,972</u>
Operating expenses:			
Salaries and benefits	1,104,689	178,801	1,283,490
Benefits	484,668	71,381	556,049
Supplies	2,256,691	22,999	2,279,690
Depreciation	157,217	8,456	165,673
Other	<u>106,924</u>	<u>3,895</u>	<u>110,819</u>
	<u>4,110,189</u>	<u>285,532</u>	<u>4,395,721</u>
Operating loss	<u>(2,578,881)</u>	<u>(277,868)</u>	<u>(2,856,749)</u>
Nonoperating revenue:			
State sources	48,557	156,599	205,156
Federal sources	2,434,962	12,390	2,447,352
Interest on investments	<u>11,218</u>	<u>-</u>	<u>11,218</u>
Total non-operating revenue	<u>2,494,737</u>	<u>168,989</u>	<u>2,663,726</u>
Loss before transfers	(84,144)	(108,879)	(193,023)
Transfers from other funds	<u>187,005</u>	<u>110,000</u>	<u>297,005</u>
Change in net assets	102,861	1,121	103,982
Net assets beginning of year	<u>2,405,414</u>	<u>105,066</u>	<u>2,510,480</u>
Net assets end of year	<u><u>\$2,508,275</u></u>	<u><u>\$ 106,187</u></u>	<u><u>\$ 2,614,462</u></u>

See notes to financial statements.

WATERLOO COMMUNITY SCHOOL DISTRICT

**Statement of Cash Flows
Propriety Funds
Year ended June 30, 2004**

	School Nutrition	Day Care	Total Enterprise Funds
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 1,531,308	\$ 5,785	\$ 1,537,093
Cash payments to employees for services	(1,613,056)	(237,317)	(1,850,373)
Cash payments to suppliers for goods or services	(2,023,160)	(27,049)	(2,050,209)
Net cash used in operating activities	<u>(2,104,908)</u>	<u>(258,581)</u>	<u>(2,363,489)</u>
Cash flows from noncapital financing activities:			
State grants received	50,663	142,439	193,102
Federal grants received	2,201,522	12,390	2,213,912
Transfers	-	105,327	105,327
Net cash provided by noncapital financing activities	<u>2,252,185</u>	<u>260,156</u>	<u>2,512,341</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	<u>(70,181)</u>	<u>(1,575)</u>	<u>(71,756)</u>
Cash flows from investing activities:			
Interest on investments	<u>11,218</u>	<u>-</u>	<u>11,218</u>
Net increase in cash and cash equivalents	88,314	-	88,314
Cash and cash equivalents at beginning of year	<u>761,907</u>	<u>-</u>	<u>761,907</u>
Cash and cash equivalents at end of year	<u>\$ 850,221</u>	<u>\$ -</u>	<u>\$ 850,221</u>
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	\$ (2,578,881)	\$ (277,868)	\$ (2,856,749)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Commodities used	233,440	-	233,440
Depreciation	157,217	8,456	165,673
(Increase) in accounts receivable	-	(1,880)	(1,880)
Decrease in inventories	127,590	-	127,590
(Increase) in prepaids	(5,018)	-	(5,018)
(Decrease) in accounts payable	(20,575)	(154)	(20,729)
Increase (decrease) in salaries and benefits payable	<u>(18,681)</u>	<u>12,865</u>	<u>(5,816)</u>
Net cash used in operating activities	<u>\$ (2,104,908)</u>	<u>\$ (258,581)</u>	<u>\$ (2,363,489)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$233,440 of federal commodities.

See notes to financial statements.

WATERLOO COMMUNITY SCHOOL DISTRICT

**Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
June 30, 2004**

	Agency
Assets	
Cash and pooled investments	<u>\$ 47,044</u>
Total assets	<u><u>\$ 47,044</u></u>
Liabilities	
Liabilities:	
Accounts payable	\$ 1,150
Due to other governments	<u>45,894</u>
Total liabilities	<u><u>\$ 47,044</u></u>

See notes to financial statements.

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

The Waterloo Community School District, which was incorporated under Chapter 274 of the State Code of Iowa, is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve with a student enrollment of 10,418. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreation courses. The geographic area served includes the cities of Waterloo, Evansdale, Elk Run Heights, Raymond, Gilbertville and a portion of Cedar Falls, Iowa and the predominate agricultural territory in Black Hawk County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

A. Reporting Entity

For financial reporting purposes, the District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Black Hawk County Assessor's Conference Board.

B. Basis of Presentation

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

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

Invested in capital assets consists of capital assets, net of accumulated depreciation. The District does not have any bonds, notes and other debt that are attributed to the acquisition, construction, or improvement of those assets.

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

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

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

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

Fund Financial Statements - Separate financial statements are provided for the governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital assets.

The District reports the following major proprietary funds:

The School Nutrition Fund is used to account for the food service operations of the District.

The Day Care Fund is used to account for the day care operations of the District.

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund includes the following:

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments and includes scholarships for students within the District. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

The proprietary funds of the District applies 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 Principals Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and 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 are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Receivables - Receivables are expected to be collected within twelve months of the end of the year.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes from the current and prior year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Education is required to certify its budget to the County Auditor by April 15 of each year for the subsequent fiscal year.

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 1/2% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventory items are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories are accounted for using the consumption method whereby inventory acquisitions are recorded in inventory accounts when purchased or received by other means and charged to operations when consumed or sold. The single inventory method is used, therefore, purchased and commodity items are accounted for in the same manner.

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

Land	\$ 1,000
Buildings and improvements	1,000
Improvements other than buildings	1,000
Machinery and equipment:	
School Nutrition Fund equipment	1,000
Day Care Fund equipment	1,000
Other machinery and equipment	1,000

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

Buildings and improvements	7 - 50 years
Improvements other than buildings	20 - 30 years
Machinery and equipment	5 - 25 years

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

Salaries and Benefits Payable - Payroll and related payroll taxes and benefits for teachers, administrators and others with annual contracts corresponding to the current school year which are payable in July, August, and September, have been accrued as liabilities as they are applicable to services provided during the respective fiscal years, and will be paid with available resources.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent uses or for payment upon termination, retirement or death. A liability is recorded when incurred in the Government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Long-term obligations - In the Government-wide financial statement, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balances are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. The District has designated a portion of its fund balance for replacement of buses should the District elect to own buses at a future date.

The District reserves the following fund balances:

Reserved for prepaids -Although prepaids are considered to be a current asset, this amount is not available for appropriate and is not considered available resources.

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

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, total expenditures did not exceed the total certified budget, nor the legally-authorized budget. However, disbursements in the functional areas of support services and other expenditures exceeded the amounts budgeted.

F. Use of Estimates

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

(2) Cash and Pooled Investments

At June 30, 2004, the carrying amount of District deposits, including certificates of deposit, was \$12,406,434. The District's deposits were entirely covered by Federal depository insurance or by the State Sinking Fund, in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District 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 Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. During the year ended June 30, 2004, the District invested in certificates of deposit and with the Iowa Schools Joint Investment Trust.

The District's investments at June 30, 2004 are as follows:

Type	Amortized Cost
Iowa Schools Joint Investment Trust (ISJIT)	<u>\$ 340,185</u>

The District's investment in the Iowa Schools Joint Investment Trust ("ISJIT") is valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940. ISJIT is a common law trust fund established under Iowa law pursuant to Chapter 28E and Section 279.29 of the Code of Iowa which authorizes Iowa schools to jointly invest moneys pursuant to a joint investment agreement. GASB Statement Number 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization. The District's fair value of the investment pool is the same as the amortized cost.

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

(3) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,106,733	\$ -	\$ -	\$ 1,106,733
Construction in progress	<u>9,745,245</u>	<u>12,179,788</u>	<u>12,894,294</u>	<u>9,030,739</u>
Total capital assets not being depreciated	<u>10,851,978</u>	<u>12,179,788</u>	<u>12,894,294</u>	<u>10,137,472</u>
Capital assets being depreciated:				
Buildings and improvements	55,067,425	11,948,616	-	67,016,041
Improvements other than buildings	1,561,236	496,104	-	2,057,340
Machinery and equipment	<u>15,574,414</u>	<u>1,644,038</u>	<u>293,960</u>	<u>16,924,492</u>
Total capital assets being depreciated	<u>72,203,075</u>	<u>14,088,758</u>	<u>293,960</u>	<u>85,997,873</u>
Less accumulated depreciation for:				
Buildings and improvements	27,391,003	1,143,471	-	28,534,474
Improvements other than buildings	950,472	53,445	-	1,003,917
Machinery and equipment	<u>9,540,233</u>	<u>1,161,220</u>	<u>285,708</u>	<u>10,415,745</u>
Total accumulated depreciation	<u>37,881,708</u>	<u>2,358,136</u>	<u>285,708</u>	<u>39,954,136</u>
Total capital assets being depreciated, net	<u>34,321,367</u>	<u>11,730,622</u>	<u>8,252</u>	<u>46,043,737</u>
Governmental activities capital assets, net	<u>\$ 45,173,345</u>	<u>\$ 23,910,410</u>	<u>\$ 12,902,546</u>	<u>\$ 56,181,209</u>
Business type activities:				
Furniture, equipment, vehicles	\$ 2,055,278	\$ 258,762	\$ -	\$ 2,314,040
Less accumulated depreciation	<u>412,667</u>	<u>165,673</u>	<u>-</u>	<u>578,340</u>
Business type activities capital assets, net	<u>\$ 1,642,611</u>	<u>\$ 93,089</u>	<u>\$ -</u>	<u>\$ 1,735,700</u>

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

The District began maintaining records of capital assets at cost July 1, 1997. A valuation of assets at historical costs was done in June 1997. The changes in the capital assets used in the operation of governmental funds by source for the year ended June 30, 2004 are as follows:

	Balance June 30, 2003	Increase	Decreases	Balance June 30, 2004
Pre July 1, 1997	\$ 45,289,669	\$ -	\$ -	\$ 45,289,669
General fund revenue	5,812,784	2,600,536	(274,047)	8,139,273
Capital projects fund revenue	27,829,560	23,626,470	(12,894,294)	38,561,736
Special revenue funds revenue	4,007,422	40,540	(19,913)	4,028,049
Donations	115,618	1,000	-	116,618
	<u>\$ 83,055,053</u>	<u>\$ 26,268,546</u>	<u>\$ (13,188,254)</u>	<u>\$ 96,135,345</u>

The changes in capital assets used in the operation of governmental funds by function and activity as of June 30, 2004 are as follows:

Function and Activity	Balance June 30, 2003	Increase	Decreases	Balance June 30, 2004
Education	\$ 77,748,369	\$ 25,830,210	\$ (13,099,578)	\$ 90,479,001
Transportation	300,407	-	(32,000)	268,407
Maintenance	2,741,314	305,223	(39,765)	3,006,772
Administration	2,264,963	133,113	(16,911)	2,381,165
	<u>\$ 83,055,053</u>	<u>\$ 26,268,546</u>	<u>\$ (13,188,254)</u>	<u>\$ 96,135,345</u>

The capital assets used in the operation of governmental funds by function and activity as of June 30, 2004 are as follows:

Function and Activity	Construction in Progress	Land and Site Improvements	Buildings	Machinery and Equipment	Total
Education	\$ 9,028,826	\$ 2,690,220	\$ 66,150,327	\$ 12,609,628	\$ 90,479,001
Transportation	-	7,000	52,000	209,407	268,407
Maintenance	1,913	411,453	468,178	2,125,228	3,006,772
Administration	-	55,400	345,536	1,980,229	2,381,165
	<u>\$ 9,030,739</u>	<u>\$ 3,164,073</u>	<u>\$ 67,016,041</u>	<u>\$ 16,924,492</u>	<u>\$ 96,135,345</u>

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 372,297
Special	74,350
Vocational	7,237
Other	228,010
Support services:	
Student	6,212
Instructional staff	84,421
General administration	17,684
School administration	18,094
Business	2,403
Operation and maintenance	282,537
Transportation	2,112
Central	65,863
	<u>1,161,220</u>
Unallocated depreciation	<u>1,196,916</u>
	<u>\$ 2,358,136</u>
Business type activities:	
School nutrition	\$ 157,217
Day care	8,456
	<u>\$ 165,673</u>

(4) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Compensated absences	\$ -	\$ 176,187	\$ -	\$ 176,187	\$ 176,187
Early retirement	-	840,000	-	840,000	-
Total	<u>\$ -</u>	<u>\$ 1,016,187</u>	<u>\$ -</u>	<u>\$ 1,016,187</u>	<u>\$ 176,187</u>

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

The District did not exceed its legal debt margin at June 30, 2004 as follows:

Total assessed valuation	<u>\$2,409,529,714</u>
Debt limit, 5% of total assessed valuation	\$ 120,476,486
Amount of debt applicable to debt limit, total general obligation bonded debt	<u>-</u>
Excess of debt limit over bonded debt outstanding, legal debt margin	<u>\$ 120,476,486</u>

(5) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$2,580,954, \$2,679,006 and \$2,612,170, respectively, equal to required contributions for each year.

(6) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and education services provided through the area education agency. The District's actual amount for this purpose totaled \$3,360,178 for the year ended June 30, 2004, and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(7) Commitments

The District has entered into agreements with various companies for the following services: nursing; management of the District's food service operations; and operation of the District's student transportation services. Terms of the agreement range from one to five years and all agreements contain provisions for renewal.

The District has entered into various contracts totaling \$13,724,085 for four major projects which are primarily being funded by the one cent local option sales and service tax. The building projects are the Lincoln Elementary School, East High School, Hoover Middle School and Lowell Elementary School. At June 30, 2004, \$8,211,612 of the contracts was completed. The remaining amounts of the contracts will be paid as the work on the projects progresses.

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

(8) Contingencies and Risk Management

The District is involved in various claims and lawsuits against the District that arise in the normal course of operations, many of which are covered by insurance. The outcome and eventual liability of the District, if any, from these claims and any unasserted claims is not known at this time. It has been the District's experience that such claims are settled for amounts substantially less than claimed amounts. District management estimates that the potential claims against the District, not covered by various insurance policies, would not materially affect the financial condition of the District. The District is also exposed to various risks of loss related to torts; theft; damage to and destruction of assets; error and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for all risks of loss, including Workers' Compensation and employee health and accident insurance. There has been no reduction in insurance coverage from the prior year. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Early Retirement Plans and Postemployment Benefits Other than Pension Benefits

The District maintains an early retirement plan covering substantially all employees who are otherwise eligible for the receipt of IPERS early retirement benefits pursuant to Chapter 97B of the Iowa Code and would have a reduction in the normal retirement allowance pursuant to Section 97B.50 of the Iowa Code. To be eligible for the early retirement plan, an employee must have been employed on a full-time basis in the District for at least 15 years and must have submitted an application for retirement no later than February 20th of the year in which the employee will retire.

The District provides a supplemental early retirement benefit for administrators. To be eligible for the benefit, an administrator must have attained 55 years of age by August 1, have completed 15 years of service with the District in which 10 of these years were served as an administrator, and have submitted application for retirement by March 31. Benefits are computed as a percentage of salary based on age at retirement. The administrators are eligible to continue participation in the District's group health insurance program to age 65. Payments for group health insurance are financed on a pay-as-you-go basis.

The District adopted a one-time incentive offer for early retirement during the 1995-96 year for certified employees covered by the Waterloo Education Association agreement, employees covered by the AFSCME agreement, and support staff covered by the Waterloo Educational Support Personnel agreement. To be eligible for the early retirement plan, an employee must have attained 59 years of age prior to June 30, 1996, have been employed on a full-time basis by the District for at least 15 years, and have submitted application for retirement prior to February 1, 1996. Payment of \$1,504 is made annually for group health insurance through the month the employee attains 65 years of age and is financed on a pay-as-you-go basis.

The District adopted a one-time temporary supplemental early retirement incentive for teachers who applied for early retirement no later than March 15, 2004. The benefit amount is \$30,000 per teacher and is payable in equal installments in the July of 2004, 2005 and 2006, respectively.

Approximately 48 employees were participating in the early retirement plans as of June 30, 2004. Early retirement benefits paid to employees during the year were \$547,574.

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

(10) Receivables, Payables and Transfers Within the Reporting Entity

At June 30, 2004, the general fund had an interfund receivable of \$67,183, the capital projects fund had an interfund receivable of \$460,491, the day care fund had an interfund payable of \$67,183 and the physical plant and equipment levy fund had an interfund payable of \$460,491. Internal balances and transfers occurred during the normal course of District business operations. Amounts are expected to be paid within twelve months of the end of the year.

Interfund transfers were as follows:

	Transfer In		
	School Nutrition Enterprise Fund	Day Care Enterprise Fund	Total
Transfer Out:			
General fund	\$ -	\$ 110,000	\$ 110,000
Capital projects fund	187,005	-	187,005
Total	\$ 187,005	\$ 110,000	\$ 297,005

(11) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2004, disbursements in the support services and other expenditures areas exceeded the amounts budgeted. The District did not exceed the total certified budget nor the legally-authorized budget.

Required Supplementary Information

WATERLOO COMMUNITY SCHOOL DISTRICT**Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund
Required Supplementary Information
Year ended June 30, 2004**

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 41,175,664	\$ 1,548,311
Intermediate sources	138,278	-
State sources	48,731,935	313,900
Federal sources	8,229,284	2,093,114
Total receipts	<u>98,275,161</u>	<u>3,955,325</u>
Disbursements:		
Instruction	56,291,675	-
Support services	24,923,832	-
Noninstructional programs	172,133	3,972,337
Other expenditures	15,249,830	-
Total disbursements	<u>96,637,470</u>	<u>3,972,337</u>
Excess (deficiency) of receipts over (under) disbursements	1,637,691	(17,012)
Other financing sources, net	<u>(274,723)</u>	<u>105,326</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,362,968	88,314
Balance beginning of year	<u>10,146,201</u>	<u>761,907</u>
Balance end of year	<u>\$ 11,509,169</u>	<u>\$ 850,221</u>

See accompanying independent auditors' report.

Total Actual	Budgeted Amounts		Final to Actual Variance- Positive (Negative)
	Original	Final	
\$ 42,723,975	\$ 42,120,619	\$ 42,120,619	\$ 603,356
138,278	-	-	138,278
49,045,835	49,656,930	49,656,930	(611,095)
10,322,398	7,595,000	7,595,000	2,727,398
<u>102,230,486</u>	<u>99,372,549</u>	<u>99,372,549</u>	<u>2,857,937</u>
56,291,675	58,608,000	58,608,000	2,316,325
24,923,832	23,459,000	23,459,000	(1,464,832)
4,144,470	4,053,000	4,553,000	408,530
15,249,830	12,351,605	13,851,605	(1,398,225)
<u>100,609,807</u>	<u>98,471,605</u>	<u>100,471,605</u>	<u>(138,202)</u>
1,620,679	900,944	(1,099,056)	2,719,735
<u>(169,397)</u>	<u>-</u>	<u>-</u>	<u>(169,397)</u>
1,451,282	900,944	(1,099,056)	2,550,338
<u>10,908,108</u>	<u>7,418,329</u>	<u>7,418,329</u>	<u>3,489,779</u>
<u>\$ 12,359,390</u>	<u>\$ 8,319,273</u>	<u>\$ 6,319,273</u>	<u>\$ 6,040,117</u>

WATERLOO COMMUNITY SCHOOL DISTRICT

**Budgetary Comparison Schedule - Budget to GAAP Reconciliation
Required Supplementary Information
Year ended June 30, 2004**

	Governmental Fund Types		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 98,275,161	\$ (1,033,531)	\$ 97,241,630
Expenditures	96,637,470	2,672,877	99,310,347
Net	1,637,691	(3,706,408)	(2,068,717)
Other financing sources	(274,723)	(22,282)	(297,005)
Beginning fund balances	10,146,201	(2,250,952)	7,895,249
Ending fund balances	<u>\$ 11,509,169</u>	<u>\$ (5,979,642)</u>	<u>\$ 5,529,527</u>

	Proprietary Fund Type Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 3,955,325	\$ 237,373	\$ 4,192,698
Expenses	3,972,337	413,384	4,385,721
Net	(17,012)	(176,011)	(193,023)
Other financing sources	105,326	191,679	297,005
Beginning net assets	761,907	1,748,573	2,510,480
Ending net assets	<u>\$ 850,221</u>	<u>\$ 1,764,241</u>	<u>\$ 2,614,462</u>

See accompanying independent auditors' report.

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized in the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, noninstructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that district expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$2,000,000.

During the year ended June 30, 2004, disbursements in the support services and other expenditures functional areas exceeded the amounts budgeted.

Other Supplementary Information

WATERLOO COMMUNITY SCHOOL DISTRICT

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004**

Assets	Special Revenue			Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	
Cash and pooled investments	\$ 1,088,774	\$ 870,052	\$ 820,771	\$ 2,779,597
Receivables:				
Property tax:				
Delinquent	34,613	-	24,621	59,234
Succeeding year	2,344,631	-	2,056,794	4,401,425
Accounts	-	379	-	379
Due from other governments	-	-	166,078	166,078
Prepays	6,762	-	-	6,762
Total assets	\$ 3,474,780	\$ 870,431	\$ 3,068,264	\$ 7,413,475
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ 41,633	\$ 40,547	\$ 392,317	\$ 474,497
Salaries and benefits payable	516,836	-	-	516,836
Interfund payable	-	-	460,491	460,491
Deferred revenue:				
Succeeding year property tax	2,344,631	-	2,056,794	4,401,425
Total liabilities	2,903,100	40,547	2,909,602	5,853,249
Fund equity:				
Unreserved, undesignated fund balance	571,680	829,884	158,662	1,560,226
Total liabilities and fund equity	\$ 3,474,780	\$ 870,431	\$ 3,068,264	\$ 7,413,475

See accompanying independent auditors' report.

WATERLOO COMMUNITY SCHOOL DISTRICT

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

	Special Revenue			Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	
Revenues:				
Property and other local taxes	\$ 2,342,995	\$ -	\$ 1,845,977	\$ 4,188,972
Other local sources	4,414	1,583,230	5,276	1,592,920
State sources	8,722	-	3,930	12,652
Federal sources	-	-	144,824	144,824
	<u>2,356,131</u>	<u>1,583,230</u>	<u>2,000,007</u>	<u>5,939,368</u>
Total revenues				
Expenditures:				
Current:				
Instruction:				
Regular instruction	656,849	-	-	656,849
Other instruction	-	1,558,570	-	1,558,570
Support services:				
Student services	6,760	-	-	6,760
Instructional staff services	15,211	-	-	15,211
General administration services	23,731	-	-	23,731
School administration services	251,602	-	-	251,602
Business services	34,822	-	-	34,822
Operation and maintenance	661,789	-	2,374,956	3,036,745
Transportation services	829	-	-	829
Central services	13,086	-	-	13,086
Noninstructional programs	19,005	-	-	19,005
	<u>1,683,684</u>	<u>1,558,570</u>	<u>2,374,956</u>	<u>5,617,210</u>
Total expenditures				
Excess (deficiency) of revenues over (under) expenditures	672,447	24,660	(374,949)	322,158
Fund balances beginning of year	(100,767)	805,224	533,611	1,238,068
Fund balances end of year	<u>\$ 571,680</u>	<u>\$ 829,884</u>	<u>\$ 158,662</u>	<u>\$ 1,560,226</u>

See accompanying independent auditors' report.

WATERLOO COMMUNITY SCHOOL DISTRICT

**Schedule of Changes in Fiduciary Assets and Liabilities -
Agency Fund
Year ended June 30, 2004**

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash	\$ 34,830	\$ 700,637	\$ 688,423	\$ 47,044
Total assets	<u>\$ 34,830</u>	<u>\$ 700,637</u>	<u>\$ 688,423</u>	<u>\$ 47,044</u>
Liabilities				
Accounts payable	\$ 2,305	\$ -	\$ 1,155	\$ 1,150
Due to other governments	<u>32,525</u>	<u>700,637</u>	<u>687,268</u>	<u>45,894</u>
Total liabilities	<u>\$ 34,830</u>	<u>\$ 700,637</u>	<u>\$ 688,423</u>	<u>\$ 47,044</u>

See accompanying independent auditors' report.

WATERLOO COMMUNITY SCHOOL DISTRICT

**Schedule of Changes in Special Revenue Fund, Student Activity Accounts
Year ended June 30, 2004**

Account	Balance Beginning of Year	Revenues and Interfund Transfers	Expenditures	Balance End of Year
High Schools:				
East	\$ 113,035	\$ 318,770	\$ 329,247	\$ 102,558
West	297,274	628,565	627,983	297,856
Expo	11,594	25,424	21,627	15,391
Middle Schools:				
Central	96,490	84,949	96,740	84,699
Hoover	50,814	129,087	117,484	62,417
Logan	13,772	22,689	27,538	8,923
Bunger	33,783	61,930	55,867	39,846
Elementary Schools:				
Black Hawk	4,258	3,612	5,123	2,747
Cunningham	9,943	26,849	31,160	5,632
Edison	9,198	53,691	44,653	18,236
Elk Run	12,721	8,571	11,043	10,249
Irving	9,797	10,478	9,701	10,574
Jewett	20,542	16,202	14,817	21,927
Kingsley	8,407	36,441	36,998	7,850
Kittrell	27,710	29,452	26,548	30,614
Lincoln	3,208	8,403	6,386	5,225
Longfellow	11,640	8,783	7,844	12,579
Lowell	12,334	32,262	24,605	19,991
Orange	26,781	41,335	37,349	30,767
Roosevelt	8,492	7,709	7,610	8,591
McKinstry	10,222	37,618	18,193	29,647
Other	13,209	(9,590)	54	3,565
Total	\$ 805,224	\$ 1,583,230	\$ 1,558,570	\$ 829,884

See accompanying independent auditors' report.

WATERLOO COMMUNITY SCHOOL DISTRICT

**Schedule of Revenues by Source and Expenditures by Function
All Governmental Fund Types
For the Last Four Years**

	Modified Accrual Basis			
	Years ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 38,456,247	\$ 37,037,974	\$ 34,996,941	\$ 33,095,977
Other	2,876,064	3,832,274	4,121,513	4,009,836
Intermediate sources	138,278	128,436	-	-
State sources	48,722,481	48,218,332	47,100,673	46,737,722
Federal sources	7,048,560	7,982,317	6,486,316	6,443,143
Total revenues	\$ 97,241,630	\$ 97,199,333	\$ 92,705,443	\$ 90,286,678
Expenditures:				
Instruction:				
Regular instruction	\$ 36,547,236	\$ 35,271,153	\$ 35,242,758	\$ 33,285,272
Special instruction	18,270,906	18,307,605	16,833,880	15,394,399
Vocational instruction	1,281,012	1,337,424	1,302,300	1,678,554
Other instruction	2,531,422	3,149,408	2,735,824	2,285,687
Support services:				
Student services	2,932,722	2,370,912	2,710,518	2,532,000
Instructional staff services	2,175,810	2,416,102	2,281,345	2,760,370
General administration services	972,748	987,520	866,761	821,047
School administration services	4,728,914	4,513,620	4,334,233	3,708,532
Business services	665,977	637,746	605,989	723,160
Operation and maintenance	10,269,848	9,429,858	8,073,211	8,697,895
Transportation services	2,634,361	2,380,679	2,221,298	2,174,004
Central support services	1,637,307	1,843,267	1,366,893	1,111,003
Non-instructional programs	169,691	203,213	545,014	134,102
Other expenses:				
Facilities acquisition	11,132,215	8,252,288	14,086,458	8,342,099
Long-term debt:				
Principal	-	10,150,000	-	-
Interest and other charges	-	507,800	507,500	592,083
AEA flowthrough	3,360,178	3,521,789	3,491,973	3,540,574
Total expenditures	\$ 99,310,347	\$ 105,280,384	\$ 97,205,955	\$ 87,780,781

See accompanying independent auditors' report.

WATERLOO COMMUNITY SCHOOL DISTRICT

**Schedule of Expenditures of Federal Awards
Year ended June 30, 2004**

Grantor/Program	CFDA Number	Grant Number	Expenditures
U.S. Department of Agriculture:			
Indirect:			
Iowa Department of Education:			
Food Donation (Noncash)	10.550	N/A	<u>\$ 233,440</u>
Child Nutrition Cluster Programs:			
School Breakfast Program	10.553	N/A	338,009
National School Lunch Program	10.555	N/A	1,778,608
Summer Food Service Program for Children	10.559	N/A	84,905
			<u>2,201,522</u>
Total U.S. Department of Agriculture			<u>2,434,962</u>
U.S. Department of Education:			
Indirect:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	6795-G-00	203,859
Title I Grants to Local Educational Agencies	84.010	6795-GC-00	377,675
Title I Grants to Local Educational Agencies	84.010	6795-M-00	47,747
Title I Grants to Local Educational Agencies	84.010	6795-G-00	1,963,549
Title I Grants to Local Educational Agencies	84.010	6795-M-00	132,471
Title I Grants to Local Educational Agencies	84.010	6795-D-00	11,193
Title I Grants to Local Educational Agencies	84.010	6795-MC-00	2,400
Title I Grants to Local Educational Agencies	84.010	6795-SI-03	40,000
Title I Grants to Local Educational Agencies	84.010	6795-SI-04	154,602
Title I Grants to Local Educational Agencies	84.010	6795-SS-03	24,140
			<u>2,957,636</u>
State Grants for Innovative Programs	84.298	N/A	<u>128,298</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	N/A	<u>101,147</u>
Eisenhower Professional Development State Grants	84.281	N/A	<u>46,604</u>
Vocational Education - Basic Grants to States	84.048	N/A	<u>227,677</u>
Fund for the Improvement of Education	84.215	N/A	<u>411,907</u>
Comprehensive School Reform Demonstration	84.332	N/A	<u>84,523</u>
Special Education - State Program Improvement for Children with Disabilities	84.323	N/A	<u>16,633</u>
English Language Acquisition Grants	84.365	N/A	<u>157,175</u>
Grants for State Assessments and Related Activities	84.369	N/A	<u>62,412</u>
Improving Teacher Quality State Grants	84.367	N/A	<u>809,787</u>

(continued)

WATERLOO COMMUNITY SCHOOL DISTRICT

**Schedule of Expenditures of Federal Awards
Year ended June 30, 2004**

Grantor/Program	CFDA Number	Grant Number	Expenditures
U.S. Department of Education (continued):			
Indirect (continued):			
Grant Wood AEA:			
Education Technology State Grants	84.318	N/A	<u>92,504</u>
Area Education Agency 267:			
Special Education - Grants to States	84.027	N/A	<u>232,692</u>
Title I Accountability Grant	84.348	N/A	<u>2,844</u>
Iowa Public Television:			
Star Schools	84.203	N/A	<u>8,651</u>
Division of Vocational Rehabilitation Services:			
Rehabilitation Services-Vocational Rehabilitation Grants to States	84.126	03-TAP-12	<u>15,895</u>
Direct:			
Bilingual Education - Program Development and Implementation Grants	84.288	T288S990076	<u>2,529</u>
Twenty-First Century Community Learning Centers	84.287	N/A	<u>1,331,961</u>
Fund for the Improvement of Education	84.215	S215L020275	<u>22,822</u>
Total U.S. Department of Education			<u>6,713,697</u>
U.S. Department of Health and Human Services:			
Indirect:			
Iowa Department of Education:			
Refugee and Entrant Assistance - Discretionary Grants	93.576	N/A	<u>47,154</u>
Tri-County Child & Family Development Council, Inc:			
Head Start	93.600	N/A	<u>143,656</u>
Total U.S. Department of Health and Human Services			<u>190,810</u>
U.S. Department of Justice:			
Direct:			
JROTC	Unknown	N/A	<u>48,685</u>
Total U.S. Department of Justice			<u>48,685</u>
Total			<u>\$ 9,388,154</u>

(continued)

WATERLOO COMMUNITY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

- (1) Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Waterloo Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on 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 basic financial statements.

See accompanying independent auditors' report.

Internal Controls and Compliance

Independent Auditors' Report on Compliance
and on Internal Control over Financial Reporting

To the Board of Education
Waterloo Community School District

We have audited the financial statements of Waterloo Community School District, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated November 5, 2004. 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 Waterloo Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved except for item IV-B-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Waterloo Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Waterloo Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above are not material weaknesses. Prior year reportable conditions have all been resolved except for item II-A-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Waterloo Community School District and other parties to whom Waterloo Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Waterloo Community School District during the course of our audit.

Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Carney, Alexander, Marold & Co., L.L.P.

November 5, 2004

Independent Auditors' Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance

To the Board of Education
Waterloo Community School District

Compliance

We have audited the compliance of Waterloo Community School District, Iowa, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Waterloo Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Waterloo Community School District's management. Our responsibility is to express an opinion on Waterloo Community School District's compliance based on our audit.

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

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

Internal Control Over Compliance

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

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

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 the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Waterloo Community School District, and other parties to whom Waterloo Community School District may report, including federal award agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

November 5, 2004

Carney, Alexander, Macold & Co., L.L.P.

WATERLOO COMMUNITY SCHOOL DISTRICT

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

Part I: Summary of the Independent Auditors' Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including no material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A reportable condition in internal control over major programs was disclosed by the audit of the financial statements, including no material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) Audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a) are reported in this schedule.
- (g) Major programs were as follows:
 - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
 - CFDA Number 84.287 - Twenty-First Century Community Learning Centers
 - CFDA Number 84.367 - Improving Teacher Quality State Grants
 - Clustered Programs:
 - CFDA Number 10.553 School Breakfast Program
 - CFDA Number 10.555 National School Lunch Program
 - CFDA Number 10.559 Summer Food Service Program for Children
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Waterloo Community School District did not qualify as a low-risk auditee.

WATERLOO COMMUNITY SCHOOL DISTRICT

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

Part II: Findings Related to the Financial Statements:

REPORTABLE CONDITION:

II-A-04 Fixed Asset Disposals - The District has adopted a fixed asset management system; however, a Fixed Assets Reporting form was not always completed for fixed assets disposed of during the year as required by the District policy.

Recommendation - In order to improve the District's oversight of fixed assets, the provisions of the fixed asset management system need to be reviewed and followed as they pertain to the disposal of fixed assets.

Response - The need for a completed asset disposal form has been and will continue to be stressed. The District does conduct regular physical inventories and adjusts the fixed asset records for any items which can't be located.

Conclusion - Response accepted.

II-B-04 Inventory - The inventory reports of government commodities on hand at year end were not updated with the most recent contributed values.

Recommendation - In order to have year end inventory records ready for audit purposes, contributed values of government commodities should be updated and inventory prices extended.

Response - The contributed values of government commodities will be updated and inventory prices extended by June 30th of each year.

Conclusion - Response accepted.

(continued)

WATERLOO COMMUNITY SCHOOL DISTRICT

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

Part II: Findings Related to the Financial Statements:

REPORTABLE CONDITION:

II-C-04 Deposits - Two checks that were received from the Iowa Department of Education in April, 2004 were not forwarded to the business office until August, 2004.

Recommendation - All District employees who receive cash or checks need to forward the receipts to the business office immediately to ensure their timely deposit. To the extent possible, amounts to be received should be sent directly to the business office.

Response - All District employees who handle cash will be reminded of the District policies regarding cash receipts and deposits.

Conclusion - Response accepted.

(continued)

WATERLOO COMMUNITY SCHOOL DISTRICT

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

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

CFDA Number 84.010: Title 1
Federal Award Year: 2004
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-04 Title 1 Equipment Management - As reported at Finding II-A-04, fixed asset disposals are not properly accounted for by the District. The Title 1 fixed asset disposal records were not adequately documented and incorrect information was submitted to the Iowa Department of Education pertaining to the District's Title 1 fixed asset disposals.

Recommendation - As recommended in Finding II-A-04, the provisions of the fixed asset management system need to be reviewed and followed regarding the disposal of Title 1 fixed assets.

Response - The District records and practices have been updated and are in compliance with Title 1 regulations.

Conclusion - Response accepted.

(continued)

WATERLOO COMMUNITY SCHOOL DISTRICT

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

Part IV: Other Findings Related to Required Statutory Reporting

- IV-A-04 Official Depositories - Official depositories have been adopted by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.
- IV-B-04 Certified Budget - Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the support services and other expenditures programs areas.
- Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.
- Response - The District did not exceed its total spending authority for the year ended June 30, 2004 and will amend its budget by functional area as required to be in compliance with the Code of Iowa.
- Conclusion - Response accepted.
- IV-C-04 Questionable Expenditures - No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- IV-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-E-04 Business Transactions - No business transactions between the District and District officials or employees were noted.
- IV-F-04 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-G-04 Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.
- IV-H-04 Certified Enrollment - We noted no variance in the basic enrollment data certified to the Department of Education.

- IV-I-04 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- IV-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.