WATERLOO COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

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

WATERLOO COMMUNITY SCHOOL DISTRICT

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WATERLOO COMMUNITY SCHOOL DISTRICT

Officials

Name	Title	Term Expires
	Board of Education (Before September 2004 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
	Board of Education (After September 2004 Election)	
Pam Miller	President	2007
Barb Opheim	Vice-President	2005
Lyle Schmitt	Board Member	2005
Don Hanson	Board Member	2007
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	2005
Jim Langstraat	District Treasurer	2005
Steve Weidner	Attorney	Indefinite
Edgar Bittle	Attorney	Indefinite

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

500 E. 4th Street, Suite 300
PO Box 1290 Waterloo, Iowa 50704-1290
Telephone (319) 233-3318 Fax (319) 233-1346
E-mail cam@carneycpa.com

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, 2005, 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 opinions 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 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, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards we have also issued our reports dated November 4, 2005 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standardsand should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 37 through 38 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.

Members of American Institute of Certified Public Accountants

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, 2004 (none of which are presented herein) and expressed an unqualified opinions on those financial statements. The supplementary information included on pages 39 through 46, 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.

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

November 4, 2005

Waterloo Community School District

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, 2005. 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 $73,196,279 (net assets). Of this amount $528,261 (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 2004-05 year. During the year there was a 2.5% reduction in state foundation aid. This followed a 2% allowable growth rate for 2003-04 and a 1% allowable growth rate for 2002-03. This was the lowest growth rate in over 20 years. According to the annual Rankings & Estimates: Rankings of the States 2003 and Estimates of School Statistics 2004 Iowa's per-pupil expenditure of $7,098 for 2003-04 was 38th in the nation -- down from 36th in 2002-03 and $1,090 below the national average of $8,188.
- The district converted the financial records and budgeting system from the cash basis to the modified accrual basis of accounting.
- Interest rates increased from an all time low of 1.02% in fiscal year 2004 to 3.46% in fiscal year 2005 causing interest earnings to increase from $112,191 to $243,763 in fiscal year 2005.
- Special education weighted enrollment increased by over 100 students. Unfortunately, funding for these additional students lags a year behind their arrival resulting in a General Fund shortfall of over $1 million.
- The District renewed the voter approved Physical Plant and Equipment Levy for another ten years.
- At June 30, 2005, the District was debt free.
- The Lincoln Elementary School, only the third new 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 Lou Henry Elementary School. This 70,000 square foot building is adjacent to Hoover Middle School and will feature four pods fanning out from the central core. The opening is slated for August 2005. A major renovation of Lowell Elementary is underway and will feature a new commons area and classrooms, improved safety and handicapped accessibility and an upgraded mechanical system. The renovation should be complete in time for the start of school in August 2005. Plans for the new Lou Henry Elementary were developed and approved. Construction commenced in the spring with opening planned for August 2005.
- The District property tax rate of $15.62 per thousand dollars of taxable valuation remains below the average of $15.88 for the 25 largest districts within Iowa.

Overview of the Financial Statements

This discussion and analysis is 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 are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the 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 government-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 government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as 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 government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The 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 government-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 government-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 government-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 government-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.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Waterloo Community School District, assets exceeded liabilities by $73,196,279 at the close of the most recent fiscal year.

By far the largest portion of the Waterloo Community School District's net assets (95 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 Activities 2005	Governmental Activities 2004	Business-type Activities 2005	Business-type Activities 2004	Total 2005	Total 2004
Current and other assets	$ 45,637	$ 47,079	$ 1,321	$ 938	$ 46,958	$48,017
Capital Assets	68,196	56,181	1,688	1,736	69,884	57,917
Total Assets	113,833	103,260	3,009	2,674	116,842	105,934
Current Liabilities	43,564	41,818	82	59	43,646	41,877
Net Assets:						
Invested in capital assets	68,196	56,181	1,688	1,736	69,884	57,917
Restricted	2,783	1,560	-	-	2,783	1,560
Unrestricted	(710)	3,701	1,239	879	529	4,580
Total net assets	$ 70,269	$ 61,442	$ 2,927	$ 2,615	$ 73,196	$64,057

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 ($528,261) 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 $312,656 in net assets reported in connection with the Waterloo Community School District's business–type activities. Most of this increase resulted from the successful operation of the food service and day care programs. Much of this increase will be used for equipment replacement and upgrades.

The district's net assets increased by $9,139,270 during the current fiscal year. The district's capital assets, including the facilities acquisition and construction activities, increased by $11,967,776. The variance between the two 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 expenditure for additional special education students and the conversion of cash into building projects.

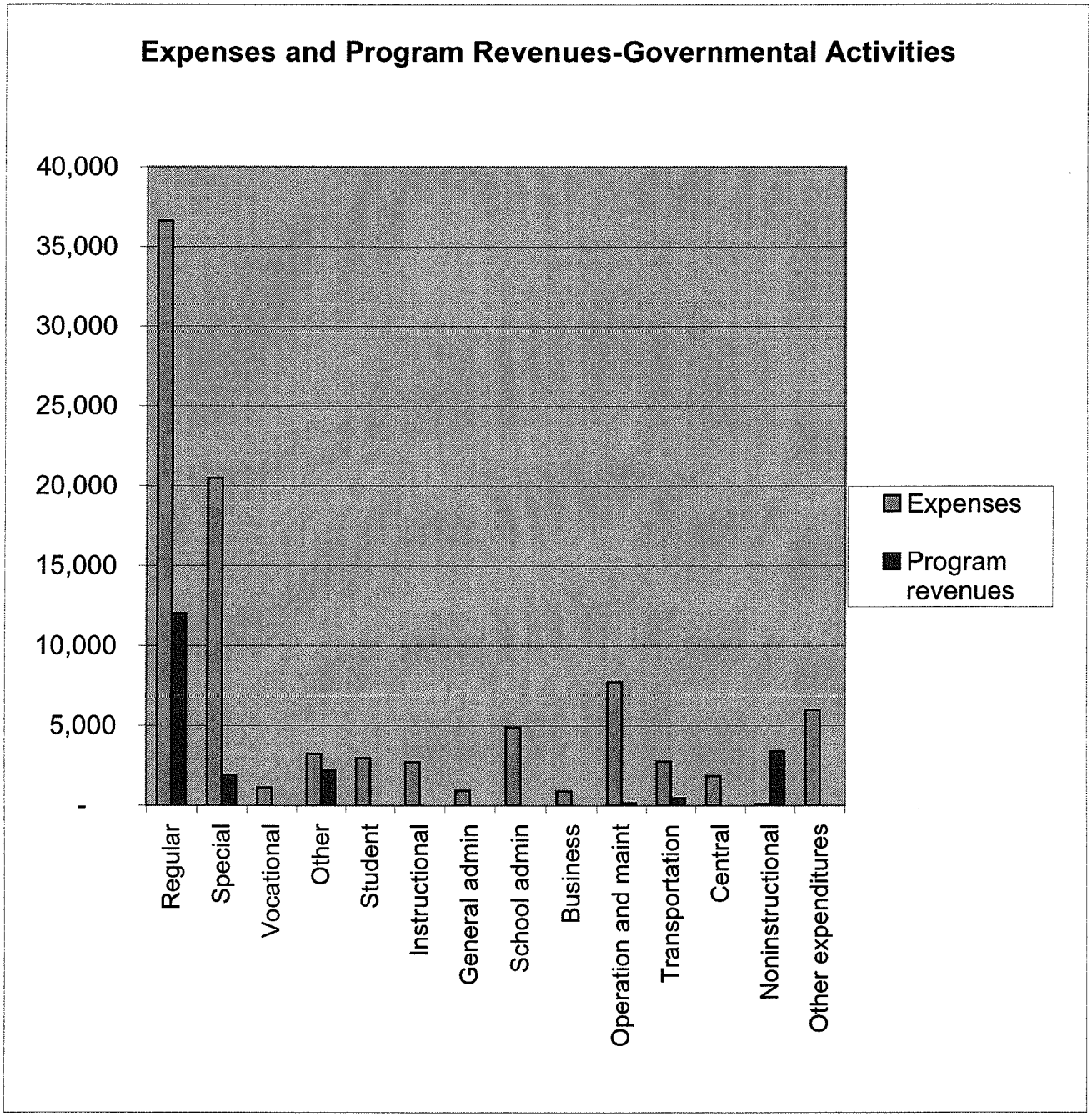
Governmental Activities. Governmental activities increased the Waterloo Community School District's net assets by $8,826,614, thereby accounting for 96.6 percent of the total growth in the net assets of the Waterloo Community School District. Key elements of this increase are as follows:

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

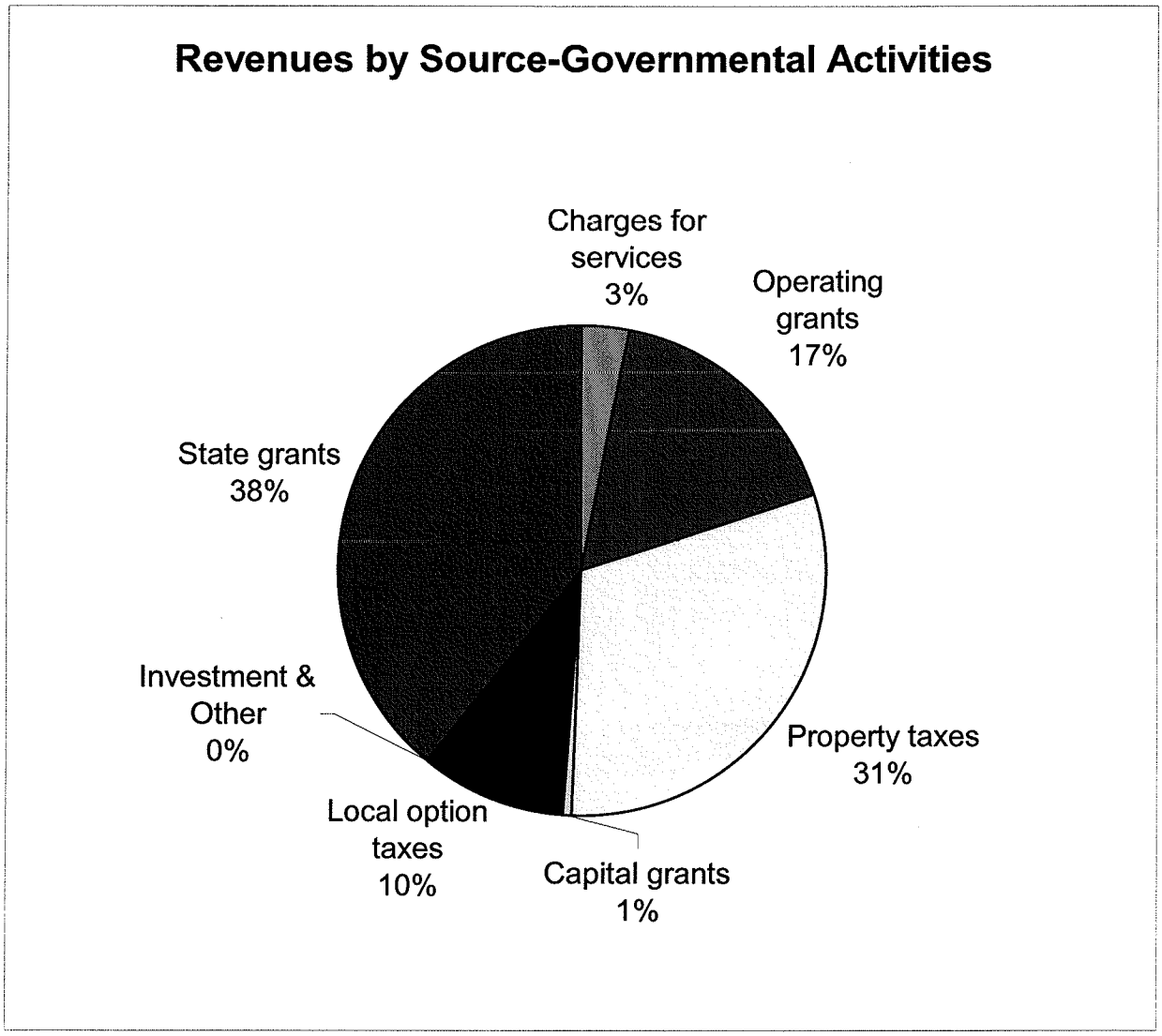
	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	$ 2,969	$ 2,633	$ 1,662	$ 1,539	$ 4,631	$ 4,172
Operating grants and contributions	17,144	13,772	2,984	2,643	20,128	16,415
Capital grants and contributions	600	406	-	-	600	406
General revenues:						
Property taxes	30,926	29,043	-	-	30,926	29,043
Local option taxes	9,674	9,413	-	-	9,674	9,413
Unrestricted state grants	39,471	42,038	11	11	39,482	42,049
Unrestricted investment earnings	233	112	-	-	233	112
Other	227	214	-	-	227	214
Total revenues	101,244	97,631	4,657	4,193	105,901	101,824
Expenses:						
Regular instruction	36,607	37,748	-	-	36,607	37,748
Special instruction	20,492	18,314	-	-	20,492	18,314
Vocational instruction	1,120	1,200	-	-	1,120	1,200
Other instruction	3,222	2,719	-	-	3,222	2,719
Student services	2,955	2,935	-	-	2,955	2,935
Instructional staff services	2,711	2,206	-	-	2,711	2,206
General administration services	923	969	-	-	923	969
School administration services	4,858	4,733	-	-	4,858	4,733
Business services	886	660	-	-	886	660
Operation and maintenance	7,733	8,884	-	-	7,733	8,884
Transportation services	2,745	2,636	-	-	2,745	2,636
Central services	1,851	1,656	-	-	1,851	1,656
Noninstructional programs	96	128	4,602	4,386	4,698	4,514
Other expenditures	5,960	4,531	-	-	5,960	4,531
Total expenses	92,159	89,319	4,602	4,386	96,761	93,705
Increase in net assets before transfers	9,085	8,312	55	(193)	9,140	8,119
Transfers	(258)	(297)	258	297	-	-
Increase in net assets	8,827	8,015	313	104	9,140	8,119
Net assets-7/1	61,442	53,427	2,614	2,510	64,056	55,937
Net assets-6/30	$ 70,269	$ 61,442	$ 2,927	$ 2,614	$ 73,196	$ 64,056

Property taxes increased by $1,882,814 (6.5 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 2003-2004 fiscal year, and to cover the increased cost of liability insurance.

Operating grants for governmental activities increased by $3,371,968 (24.5 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.



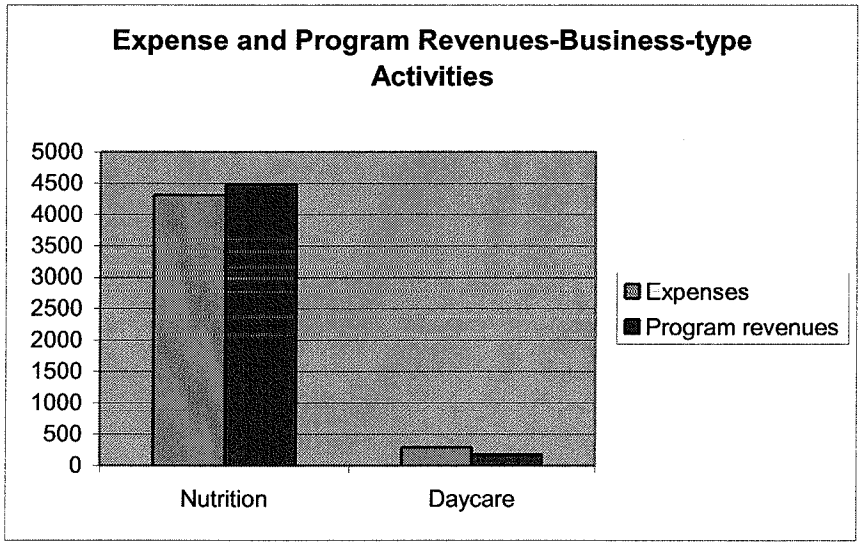
(amounts expressed in thousands)



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 (21% of the other expenditure category and 1.4% 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 $312,656 accounting for 3.4 percent of the total growth in the district's net assets. Key elements of this increase are as follows:

- 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.
- An expanded summer school program also increased the number of meals served.
- Property tax asking for the daycare fund had planned for an increase of $120,000 to offset earlier shortfalls in grant revenues.



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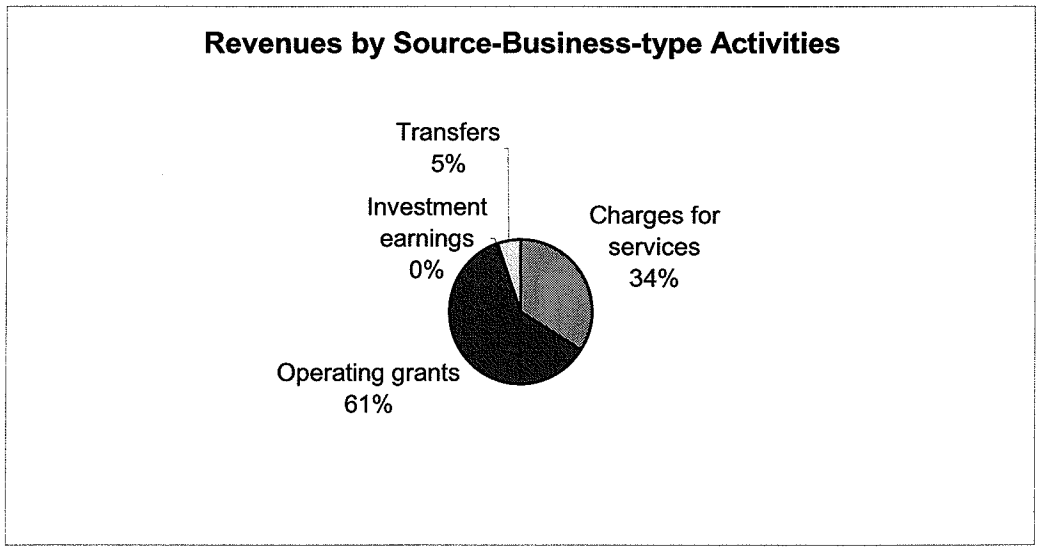

Financial Analysis of the Government's Funds

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 a combined ending fund balance of $2,296,063, a decrease of $3,233,464 in comparison with the prior year. $1,536,057 (67 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 ($760,006).

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 $949,585, while total fund balance reached $1,708,534. 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 1.15 percent of total general fund expenditures, while total fund balance represents 2.07 percent of that same amount.

The fund balance of the Waterloo Community School District's general fund decreased by $1,601,204 during the current fiscal year. Key factors in this decrease are as follows:

- The increase in special education weighting was over 100 (a five percent increase). Funding for these students does not come until the year after their arrival. During the interim they still must be served. This led to an overexpenditure in the special education area of approximately $1.3 million dollars.
- Several sites within the district have been 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.
- The allowable growth rates granted by the state legislature have been the lowest in over twenty years. In addition to staffing cuts and other budget reductions most schools have been utilizing their cash reserve.

The capital projects fund balance decreased by $2,855,367 due primarily to the number and timing of construction projects in process. Construction was completed for the new Lincoln Elementary school while construction continued on the new Lou Henry Elementary school and renovations and renovations continued at Lowell 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 $1,196,944, and those for the daycare operation amounted to $41,840. The total growth in net assets for both funds was $197,776 and $114,880, 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 totaled $6,219,024 (5.9 percent) and can be briefly summarized as follows:

- The State of Iowa allows school districts to prepare their certified budgets on a cash basis but requires year end reports to be prepared on a modified accrual basis. Compliance with the reporting requirements of GASB 34 and the preparation of the comprehensive annual financial report also require accrual accounting. The certified budget method was revised from a cash basis of reporting to the modified accrual basis of reporting. The administration of the district feels that this presents a more accurate financial picture of the district. This increase in the certified budget is a one time entry and all future certified budgets will be prepared on the modified accrual basis of accounting.

All of this increase reflects a timing difference in expenditure recognition and did not require any additional cash resources. This change will have no impact on the property tax asking or property tax levy rate.

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, 2005 amounts to $69,884,685 (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	
	2005	2004	2005	2004	2005	2004
Land and site improvements	$ 2,321	$ 2,160	$ -	$ -	$ 2,321	$ 2,160
Buildings	47,524	38,482	-	-	47,524	38,482
Machinery and equipment	6,445	6,509	1,688	1,736	8,133	8,245
Construction in progress	11,906	9,030	-	-	11,906	9,030
Total	68,196	56,181	1,688	1,736	69,884	57,917

(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 $1,250,000 from the Wells Fargo Bank 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 5.0 percent, which is an increase from a rate of 4.8 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 95.2% demonstrating the cost of living in Waterloo is below the national average of 100%. Both grocery 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 2005-06 fiscal year.
- The state legislature had established a growth rate of 4 percent for the 2006-07 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 2006 fiscal year and will be crucial in developing the budget for the 2007 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, 2005

	Governmental Activities	Business type Activities	Total
Assets			
Cash and cash equivalents	$ 8,223,319	$ 1,049,354	$ 9,272,673
Receivables:			
Property tax:			
Delinquent	443,203	-	443,203
Succeeding year	31,845,487	-	31,845,487
Accounts	155,404	36	155,440
Due from other governments	4,097,239	95,044	4,192,283
Inventories	105,205	145,929	251,134
Prepaids	766,923	30,793	797,716
Capital assets, net of accumulated depreciation:			
Land	1,106,733	-	1,106,733
Construction in progress	11,906,231	-	11,906,231
Other capital assets	55,183,387	1,688,334	56,871,721
Total assets	113,833,131	3,009,490	116,842,621
Liabilities			
Accounts payable	3,229,720	36,179	3,265,899
Salaries and benefits payable	7,877,996	46,193	7,924,189
Unearned revenue, succeeding year property tax	31,845,487	-	31,845,487
Long-term liabilities:			
Portion due within one year:			
Compensated absences	190,767	-	190,767
Portion due more than one year:			
Early retirement	420,000	-	420,000
Total liabilities	43,563,970	82,372	43,646,342
Net assets			
Invested in capital assets	68,196,351	1,688,334	69,884,685
Restricted for:			
Physical plant and equipment levy	846,598	-	846,598
Other special revenue purposes	1,936,735	-	1,936,735
Unrestricted	(710,523)	1,238,784	528,261
Total net assets	$ 70,269,161	$ 2,927,118	$ 73,196,279

See notes to basic financial statements.

WATERLOO COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grant, Contributions and Restricted Interest	Program Revenues: Capital Grants, Contributions and Restricted Interest
Governmental Activities				
Instruction:				
Regular instruction	$ 36,607,231	$ 433,035	$ 11,575,054	$ -
Special instruction	20,491,741	460,861	1,449,403	-
Vocational instruction	1,120,479	-	-	-
Other instruction	3,221,816	1,931,241	285,789	-
	61,441,267	2,825,137	13,310,246	-
Support services:				
Student services	2,954,867	-	-	-
Instructional staff services	2,710,609	-	-	-
General administration services	922,798	-	-	-
School administration services	4,857,943	-	-	-
Business services	886,121	-	-	-
Operation and maintenance	7,732,649	143,504	-	-
Transportation services	2,744,789	-	445,661	-
Central services	1,851,500	-	-	-
Other	1,304,346	-	-	600,304
AEA flowthrough	3,388,142	-	3,388,142	-
Depreciation (unallocated)	1,253,208	-	-	-
Loss on disposal of capital assets	14,585	-	-	-
	30,621,557	143,504	3,833,803	600,304
Noninstructional programs	96,508	-	-	-
Total governmental activities	92,159,332	2,968,641	17,144,049	600,304
Business Type Activities				
Noninstructional programs:				
Nutrition services	4,314,460	1,662,453	2,810,938	-
Day care services	287,899	-	172,779	-
	4,602,359	1,662,453	2,983,717	-
Total	$ 96,761,691	$ 4,631,094	$ 20,127,766	$ 600,304

Continued on following page.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
$ (24,599,142)	$ -	$ (24,599,142)
(18,581,477)	-	(18,581,477)
(1,120,479)	-	(1,120,479)
(1,004,786)	-	(1,004,786)
(45,305,884)	-	(45,305,884)
(2,954,867)	-	(2,954,867)
(2,710,609)	-	(2,710,609)
(922,798)	-	(922,798)
(4,857,943)	-	(4,857,943)
(886,121)	-	(886,121)
(7,589,145)	-	(7,589,145)
(2,299,128)	-	(2,299,128)
(1,851,500)	-	(1,851,500)
(704,042)	-	(704,042)
-	-	-
(1,253,208)	-	(1,253,208)
(14,585)	-	(14,585)
(26,043,946)	-	(26,043,946)
(96,508)	-	(96,508)
(71,446,338)	-	(71,446,338)
-	158,931	158,931
-	(115,120)	(115,120)
-	43,811	43,811
(71,446,338)	43,811	(71,402,527)

WATERLOO COMMUNITY SCHOOL DISTRICT

Statement of Activities, continued

Year ended June 30, 2005

		Program Revenues		
Functions/Programs	Expenses	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 basic financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
30,925,642	-	30,925,642
9,674,188	-	9,674,188
39,471,036	-	39,471,036
232,889	10,874	243,763
227,168	-	227,168
(257,971)	257,971	-
80,272,952	268,845	80,541,797
8,826,614	312,656	9,139,270
61,442,547	2,614,462	64,057,009
$ 70,269,161	$ 2,927,118	$ 73,196,279

WATERLOO COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds
June 30, 2005

	General	Capital Projects	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and pooled investments	$ 4,927,990	$ 591	$ 3,294,738	$ 8,223,319
Receivables:				
Property tax:				
Delinquent	380,626	-	62,577	443,203
Succeeding year	27,527,908	-	4,317,579	31,845,487
Accounts	153,705	-	1,699	155,404
Interfund receivable	2,566,469	-	-	2,566,469
Due from other governments	2,049,251	2,047,988	-	4,097,239
Inventories	105,205	-	-	105,205
Prepaids	758,949	1,057	6,917	766,923
Total assets	$ 38,470,103	$ 2,049,636	$ 7,683,510	$ 48,203,249
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	$ 1,396,769	$ 1,678,971	$ 153,980	$ 3,229,720
Salaries and benefits payable	7,457,996	-	420,000	7,877,996
Interfund payable	-	2,566,469	-	2,566,469
Deferred revenue:				
Succeeding year property tax	27,527,908	-	4,317,579	31,845,487
Other	378,896	-	8,618	387,514
Total liabilities	36,761,569	4,245,440	4,900,177	45,907,186
Fund balance:				
Reserved for:				
Prepaids	758,949	1,057	-	760,006
Unreserved:				
Designated for buses	621,500	-	-	621,500
Undesignated	328,085	(2,196,861)	-	(1,868,776)
Reported in nonmajor Special Revenue funds	-	-	2,783,333	2,783,333
Total fund balances	1,708,534	(2,195,804)	2,783,333	2,296,063
Total liabilities and fund balances	$ 38,470,103	$ 2,049,636	$ 7,683,510	$ 48,203,249

See notes to basic financial statements.

WATERLOO COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
June 30, 2005

Total governmental fund balances	$ 2,296,063
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.	68,196,351
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the governmental funds.	387,514
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.	(610,767)
Net assets of governmental activities	$ 70,269,161

See notes to basic financial statements.

WATERLOO COMMUNITY SCHOOL DISTRICT

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

	General	Capital Projects	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property and other local taxes	$ 26,577,760	$ 9,674,188	$ 4,347,883	$ 40,599,831
Other local sources	1,635,225	6,522	1,732,393	3,374,140
Intermediate sources	2,835	128,187	-	131,022
State sources	49,770,456	-	4,006	49,774,462
Federal sources	7,124,642	500,000	100,304	7,724,946
Total revenues	85,110,918	10,308,897	6,184,586	101,604,401
Expenditures:				
Current:				
Instruction:				
Regular instruction	36,181,196	-	703,953	36,885,149
Special instruction	20,432,358	-	-	20,432,358
Vocational instruction	1,225,442	-	-	1,225,442
Other instruction	1,430,138	-	1,635,541	3,065,679
	59,269,134	-	2,339,494	61,608,628
Support services:				
Student services	2,944,142	-	6,818	2,950,960
Instructional staff services	2,635,575	-	14,990	2,650,565
General administration services	897,962	-	12,713	910,675
School administration services	4,619,640	-	231,614	4,851,254
Business services	906,418	-	32,906	939,324
Operation and maintenance	7,199,914	-	2,247,818	9,447,732
Transportation services	2,731,460	-	11,195	2,742,655
Central services	1,831,787	-	30,340	1,862,127
Facilities acquisition and construction	-	13,136,293	-	13,136,293
AEA flowthrough	3,388,142	-	-	3,388,142
	27,155,040	13,136,293	2,588,394	42,879,727
Noninstructional programs	65,867	-	33,591	99,458
Total expenditures	86,490,041	13,136,293	4,961,479	104,587,813
Excess (deficiency) of revenues over (under) expenditures	(1,379,123)	(2,827,396)	1,223,107	(2,983,412)
Other financing uses:				
Transfers out	(230,000)	(27,971)	-	(257,971)
Proceeds from sale of capital assets	7,919	-	-	7,919
Total other financing uses	(222,081)	(27,971)	-	(250,052)
Net change in fund balances	(1,601,204)	(2,855,367)	1,223,107	(3,233,464)
Fund balances beginning of year	3,309,738	659,563	1,560,226	5,529,527
Fund balances end of year	$ 1,708,534	$ (2,195,804)	$ 2,783,333	$ 2,296,063

See notes to basic 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, 2005

Net change in fund balances - total governmental funds		$ (3,233,464)
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	$ 14,464,175	
Depreciation expense	(2,426,529)	12,037,646
The net effect of the disposal of capital assets is to decrease net assets.		(22,504)
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.		(360,484)
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		405,420
Change in net assets of governmental activities		$ 8,826,614

See notes to basic financial statements.

WATERLOO COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds
June 30, 2005

Assets	School Nutrition	Day Care	Total Enterprise Funds
Current assets:			
Cash and pooled investments	$ 981,008	$ 68,346	$ 1,049,354
Accounts receivable	93,324	1,756	95,080
Inventories	145,929	-	145,929
Prepaids	30,793	-	30,793
Total current assets	1,251,054	70,102	1,321,156
Noncurrent assets:			
Capital assets, net of accumulated depreciation	1,509,107	179,227	1,688,334
Total assets	2,760,161	249,329	3,009,490
Liabilities			
Current liabilities:			
Accounts payable	36,005	174	36,179
Salaries and benefits payable	18,105	28,088	46,193
Total current liabilities	54,110	28,262	82,372
Total liabilities	54,110	28,262	82,372
Net assets			
Invested in capital assets	1,509,107	179,227	1,688,334
Unrestricted	1,196,944	41,840	1,238,784
Total net assets	$ 2,706,051	$ 221,067	$ 2,927,118

See notes to basic financial statements.

WATERLOO COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets
Propriety Funds
Year ended June 30, 2005

	School Nutrition	Day Care	Total Enterprise Funds
Operating revenue:			
Local sources:			
Charges for service	$1,662,453	$ -	$ 1,662,453
Operating expenses:			
Salaries	1,156,162	178,750	1,334,912
Benefits	555,590	83,451	639,041
Purchased services	508,425	4,618	513,043
Supplies	1,777,987	12,157	1,790,144
Depreciation	216,084	8,575	224,659
Other	100,212	348	100,560
	4,314,460	287,899	4,602,359
Operating loss	(2,652,007)	(287,899)	(2,939,906)
Nonoperating revenue:			
State sources	236,577	37,872	274,449
Federal sources	2,574,361	134,907	2,709,268
Interest on investments	10,874	-	10,874
Total non-operating revenue	2,821,812	172,779	2,994,591
Income (loss) before transfers	169,805	(115,120)	54,685
Transfers from other funds	27,971	230,000	257,971
Change in net assets	197,776	114,880	312,656
Net assets beginning of year	2,508,275	106,187	2,614,462
Net assets end of year	$2,706,051	$ 221,067	$ 2,927,118

See notes to basic financial statements.

WATERLOO COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Propriety Funds
Year ended June 30, 2005

	School Nutrition	Day Care	Total Enterprise Funds
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	$ 1,662,416	$ -	$ 1,662,416
Cash payments to employees for services	(1,686,219)	(264,399)	(1,950,618)
Cash payments to suppliers for goods or services	(2,164,573)	(17,135)	(2,181,708)
Net cash used in operating activities	(2,188,376)	(281,534)	(2,469,910)
Cash flows from noncapital financing activities:			
State grants received	198,302	53,911	252,213
Federal grants received	2,218,712	133,152	2,351,864
Transfers	27,971	162,817	190,788
Net cash provided by noncapital financing activities	2,444,985	349,880	2,794,865
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(136,696)	-	(136,696)
Cash flows from investing activities:			
Interest on investments	10,874	-	10,874
Net increase in cash and cash equivalents	130,787	68,346	199,133
Cash and cash equivalents at beginning of year	850,221	-	850,221
Cash and cash equivalents at end of year	$ 981,008	$ 68,346	$ 1,049,354
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$ (2,652,007)	$ (287,899)	$ (2,939,906)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Commodities used	301,361	-	301,361
Depreciation	175,487	8,575	184,062
(Increase) in accounts receivable	(37)	-	(37)
(Increase) in inventories	(35,201)	-	(35,201)
(Increase) in prepaids	(3,547)	-	(3,547)
Increase (decrease) in accounts payable	25,679	(12)	25,667
(Decrease) in salaries and benefits payable	(111)	(2,198)	(2,309)
Net cash used in operating activities	$ (2,188,376)	$ (281,534)	$ (2,469,910)

Non-cash investing, capital and financing activities:
During the year ended June 30, 2005, the District received $301,361 of federal commodities.

See notes to basic financial statements.

WATERLOO COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
June 30, 2005

		Agency
Assets		
Cash and pooled investments	$	36,769
Total assets	$	36,769
Liabilities		
Liabilities:		
Accounts payable	$	3,221
Due to other governments		33,548
Total liabilities	$	36,769

See notes to basic 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 10,472. 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 are 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. Interfund services provided and used are not eliminated in the process of consolidation. 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.

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:

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. The District's fiduciary fund, the agency fund, does not have a measurement focus. 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.

The proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting 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 to 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

Pooled Cash and Investments: Separate bank accounts and investments are not maintained for all District funds, as certain funds maintain their cash and investment balances in a pooled account. Accounting records are maintained to show the portion of the pooled account attributable to each participating fund.

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 of 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.

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, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, 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

Land and construction in progress are not subject to depreciation.

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.

Unearned 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. The District has no compensated absences subject to accrual at year end. 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.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, total expenditures did not exceed the total certified budget, nor the legally-authorized budget. However, expenditures in the functional area of other expenditures exceeded the amount 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 Cash Equivalents and Investments

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

Credit risk: The District is authorized by statute to invest public funds not currently needed for operating expenses in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; perfected repurchase agreements; certain joint investment trusts and warrants for improvement certificates of a drainage district. The District has no investment policies that would further limit its investment choices.

At June 30, 2005, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	$ 71,355

The investments are rated Aaa by Moody's Investors Service and are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

Custodial credit risk: For deposits, this is the risk that in the event of bank failure, the District's deposits may not be returned to it. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Chapter 12C of the Code of Iowa requires all District funds be deposited into an approved depository and be either insured or collateralized. As of June 30, 2005, the District had no deposits or investments subject to custodial credit risk.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2005 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	9,030,739	14,651,753	11,776,261	11,906,231
Total capital assets not being depreciated	10,137,472	14,651,753	11,776,261	13,012,964
Capital assets being depreciated:				
Buildings and improvements	67,016,041	10,230,964	-	77,247,005
Improvements other than buildings	2,057,340	225,066	-	2,282,406
Machinery and equipment	16,924,492	1,132,653	134,053	17,923,092
Total capital assets being depreciated	85,997,873	11,588,683	134,053	97,452,503
Less accumulated depreciation for:				
Buildings and improvements	28,534,474	1,188,661	-	29,723,135
Improvements other than buildings	1,003,917	64,547	-	1,068,464
Machinery and equipment	10,415,745	1,173,321	111,549	11,477,517
Total accumulated depreciation	39,954,136	2,426,529	111,549	42,269,116
Total capital assets being depreciated, net	46,043,737	9,162,154	22,504	55,183,387
Governmental activities capital assets, net	$ 56,181,209	$ 23,813,907	$ 11,798,765	$ 68,196,351
Business type activities:				
Furniture, equipment, vehicles	$ 2,314,040	$ 136,696	$ -	$ 2,450,736
Less accumulated depreciation	578,340	184,062	-	762,402
Business type activities capital assets, net	$ 1,735,700	$ (47,366)	$ -	$ 1,688,334

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, 2005 are as follows:

	Balance June 30, 2004	Increase	Decreases	Balance June 30, 2005
Pre July 1, 1997	$ 45,289,669	$ -	$ -	$ 45,289,669
General fund revenue	8,139,273	2,557,978	(109,621)	10,587,630
Capital projects fund revenue	38,561,736	23,599,754	(11,797,745)	50,363,745
Special revenue funds revenue	4,028,049	74,249	(2,948)	4,099,350
Donations	116,618	8,455	-	125,073
	$ 96,135,345	$ 26,240,436	$ (11,910,314)	$ 110,465,467

The changes in capital assets used in the operation of governmental funds by function and activity as of June 30, 2005 are as follows:

Function and Activity	Balance June 30, 2004	Increase	Decreases	Balance June 30, 2005
Education	$ 90,479,001	$ 25,911,109	$ (11,838,647)	$ 104,551,463
Transportation	268,407	-	(28,746)	239,661
Maintenance	3,006,772	176,231	-	3,183,003
Administration	2,381,165	153,096	(42,921)	2,491,340
	$ 96,135,345	$ 26,240,436	$ (11,910,314)	$ 110,465,467

The capital assets used in the operation of governmental funds by function and activity as of June 30, 2005 are as follows:

Function and Activity	Construction in Progress	Land and Site Improvements	Buildings	Machinery and Equipment	Total
Education	$ 11,906,231	$ 2,885,656	$ 76,357,760	$ 13,401,816	$ 104,551,463
Transportation	-	7,000	52,000	180,661	239,661
Maintenance	-	441,083	489,587	2,252,333	3,183,003
Administration	-	55,400	347,658	2,088,282	2,491,340
	$ 11,906,231	$ 3,389,139	$ 77,247,005	$ 17,923,092	$ 110,465,467

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	$ 376,177
Special	75,125
Vocational	7,312
Other	230,386
Support services:	
Student	6,277
Instructional staff	85,301
General administration	17,868
School administration	18,283
Business	2,428
Operation and maintenance	285,481
Transportation	2,134
Central	66,549
	1,173,321
Unallocated depreciation	1,253,208
Total governmental activities depreciation expense	$ 2,426,529
Business type activities:	
School nutrition	$ 175,487
Day care	8,575
Total business type activities depreciation expense	$ 184,062

(4) Short-term Debt and Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Compensated absences	$ 176,187	$ 14,580	$ -	$ 190,767	$ 190,767
Early retirement	840,000	-	420,000	420,000	-
Total	$ 1,016,187	$ 14,580	$ 420,000	$ 610,767	$ 190,767

The District uses short-term debt to cover short-term cash flow needs caused by the uneven flow of revenues from property taxes and state foundation aid. Under lines of credit which expired October 31, 2004 and December 15, 2004, the District borrowed and repaid $1,250,000 during the year ended June 30, 2005.

The District did not exceed its legal debt margin at June 30, 2005 as follows:

Total assessed valuation	$2,546,674,944
Debt limit, 5% of total assessed valuation	$ 127,333,747
Amount of debt applicable to debt limit, total general obligation bonded debt	-
Excess of debt limit over bonded debt outstanding, legal debt margin	$ 127,333,747

(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. District's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were $2,748,831, $2,580,954, and $2,679,006, 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 $3,383,142 for the year ended June 30, 2005, 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 agreements range from one to five years and all agreements contain provisions for renewal.

The District has entered into various contracts totaling $17,267,480 for three major projects which are primarily being funded by the one cent local option sales and service tax. The building projects are the Lowell Elementary School, Kingsley Elementary School and the Lou Henry Elementary School. At June 30, 2005, $11,483,844 of the contracts were completed. The remaining amounts of the contracts will be paid as the work on the projects progresses.

(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. Third -party coverage is currently maintained for individual workers' compensation claims in excess of $100,000 and all other potential losses. 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 2005 and 2006, respectively.

Approximately 43 employees were participating in the early retirement plans as of June 30, 2005. Early retirement benefits paid to employees during the year were $428,263.

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

At June 30, 2005, the general fund had an interfund receivable of $2,566,469 and the capital projects fund had an interfund payable of $2,566,469. 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		
Transfer Out:	School Nutrition Enterprise Fund	Day Care Enterprise Fund	Total
General fund	$ -	$ 230,000	$ 230,000
Capital projects fund	27,971	-	27,971
Total	$ 27,971	$ 230,000	$ 257,971

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

(11) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2005, expenditures in the other expenditures area exceeded the amount budgeted. The District did not exceed the total certified budget nor the legally-authorized budget.

(12) Deficit Fund Equity

The capital projects fund had a deficit balance of $2,195,804 at June 30, 2005. The District plans to eliminate the deficit with future tax revenues.

Required Supplementary Information

WATERLOO COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget and Actual -
All Governmental Funds and Proprietary Fund
Required Supplementary Information
Year ended June 30, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Revenues:		
Local sources	$ 43,973,971	$ 1,673,327
Intermediate sources	131,022	-
State sources	49,774,462	262,293
Federal sources	7,724,946	2,721,424
Total revenues	101,604,401	4,657,044
Expenditures/Expenses:		
Instruction	61,608,628	-
Support services	26,355,292	-
Noninstructional programs	99,458	4,602,359
Other expenditures	16,524,435	-
Total expenditures/expenses	104,587,813	4,602,359
Excess (deficiency) of revenues over (under) expenditures/expenses	(2,983,412)	54,685
Other financing sources, net	(250,052)	257,971
Net change in fund balance	$ (3,233,464)	$ 312,656

See note to required supplementary information

Total Actual	Budgeted Amounts Original	Budgeted Amounts Final	Final to Actual Variance-Positive (Negative)
$ 45,647,298	$ 45,808,046	$ 45,808,046	$ (160,748)
131,022	100,000	100,000	31,022
50,036,755	51,210,340	51,210,340	(1,173,585)
10,446,370	10,020,000	10,020,000	426,370
106,261,445	107,138,386	107,138,386	(876,941)
61,608,628	61,060,000	64,000,000	2,391,372
26,355,292	26,300,000	28,000,000	1,644,708
4,701,817	4,654,000	5,000,000	298,183
16,524,435	13,766,976	15,000,000	(1,524,435)
109,190,172	105,780,976	112,000,000	2,809,828
(2,928,727)	1,357,410	(4,861,614)	1,932,887
7,919	-	-	7,919
$ (2,920,808)	$ 1,357,410	$ (4,861,614)	$ 1,940,806

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting
June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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 adopted on a basis consistent with accounting principles generally accepted in the United States of America.

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 expenditures by $6,219,024.

During the year ended June 30, 2005, expenditures in the other expenditures functional area exceeded the amount budgeted.

Other Supplementary Information

WATERLOO COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

	Special Revenue			
Assets	Management Levy	Student Activity	Physical Plant and Equipment Levy	Total
Cash and pooled investments	$ 1,544,941	$ 867,623	$ 882,174	$ 3,294,738
Receivables:				
Property tax:				
Delinquent	33,532	-	29,045	62,577
Succeeding year	2,254,969	-	2,062,610	4,317,579
Accounts	-	1,699	-	1,699
Prepaids	6,917	-	-	6,917
Total assets	$ 3,840,359	$ 869,322	$ 2,973,829	$ 7,683,510
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	$ 70,097	$ 27,880	$ 56,003	$ 153,980
Salaries and benefits payable	420,000	-	-	420,000
Deferred revenue:				
Succeeding year property tax	2,254,969	-	2,062,610	4,317,579
Other	-	-	8,618	8,618
Total liabilities	2,745,066	27,880	2,127,231	4,900,177
Fund equity:				
Unreserved, undesignated fund balance	1,095,293	841,442	846,598	2,783,333
Total liabilities and fund equity	$ 3,840,359	$ 869,322	$ 2,973,829	$ 7,683,510

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, 2005

	Special Revenue			
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Total
Revenues:				
Property and other local taxes	$ 2,339,291	$ -	$ 2,008,592	$ 4,347,883
Other local sources	25,187	1,647,099	60,107	1,732,393
State sources	2,159	-	1,847	4,006
Federal sources	-	-	100,304	100,304
Total revenues	2,366,637	1,647,099	2,170,850	6,184,586
Expenditures:				
Current:				
Instruction:				
Regular instruction	703,953	-	-	703,953
Other instruction	-	1,635,541	-	1,635,541
Support services:				
Student services	6,818	-	-	6,818
Instructional staff services	14,990	-	-	14,990
General administration services	12,713	-	-	12,713
School administration services	231,614	-	-	231,614
Business services	32,906	-	-	32,906
Operation and maintenance	764,904	-	1,482,914	2,247,818
Transportation services	11,195	-	-	11,195
Central services	30,340	-	-	30,340
Noninstructional programs	33,591	-	-	33,591
Total expenditures	1,843,024	1,635,541	1,482,914	4,961,479
Excess of revenues over expenditures	523,613	11,558	687,936	1,223,107
Fund balances beginning of year	571,680	829,884	158,662	1,560,226
Fund balances end of year	$ 1,095,293	$ 841,442	$ 846,598	$ 2,783,333

See accompanying independent auditors' report.

WATERLOO COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund
Year ended June 30, 2005

Assets	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Cash	$ 47,044	$ 813,149	$ 823,424	$ 36,769
Total assets	$ 47,044	$ 813,149	$ 823,424	$ 36,769
Liabilities				
Accounts payable	$ 1,150	$ 2,071	$ -	$ 3,221
Due to other governments	45,894	811,078	823,424	33,548
Total liabilities	$ 47,044	$ 813,149	$ 823,424	$ 36,769

See accompanying independent auditors' report.

WATERLOO COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts
Year ended June 30, 2005

Account	Balance Beginning of Year	Revenues and Interfund Transfers	Expenditures	Balance End of Year
High Schools:				
East	$ 102,558	$ 325,195	$ 332,519	$ 95,234
West	297,856	712,293	699,395	310,754
Expo	15,391	23,397	14,688	24,100
Middle Schools:				
Central	84,699	77,664	82,836	79,527
Hoover	62,417	101,732	107,612	56,537
Logan	8,923	35,049	33,136	10,836
Bunger	39,846	57,947	56,923	40,870
Elementary Schools:				
Black Hawk	2,747	4,502	4,346	2,903
Cunningham	5,632	42,531	31,036	17,127
Edison	18,236	53,548	49,338	22,446
Elk Run	10,249	24,808	18,405	16,652
Irving	10,574	14,045	13,165	11,454
Jewett	21,927	13,918	14,161	21,684
Kingsley	7,850	21,373	18,859	10,364
Kittrell	30,614	35,352	34,278	31,688
Lincoln	5,225	6,194	1,987	9,432
Longfellow	12,579	16,244	17,412	11,411
Lowell	19,991	29,488	25,120	24,359
Orange	30,767	37,841	47,191	21,417
Roosevelt	8,591	-	8,591	-
McKinstry	29,647	10,461	22,491	17,617
Other	3,565	3,517	2,052	5,030
Total	$ 829,884	$ 1,647,099	$ 1,635,541	$ 841,442

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,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	$ 40,599,831	$ 38,456,247	$ 37,037,974	$ 34,996,941
Other	3,374,140	2,876,064	3,832,274	4,121,513
Intermediate sources	131,022	138,278	128,436	-
State sources	49,774,462	48,722,481	48,218,332	47,100,673
Federal sources	7,724,946	7,048,560	7,982,317	6,486,316
Total revenues	$ 101,604,401	$ 97,241,630	$ 97,199,333	$ 92,705,443
Expenditures:				
Instruction:				
Regular instruction	$ 36,885,149	$ 36,547,236	$ 35,271,153	$ 35,242,758
Special instruction	20,432,358	18,270,906	18,307,605	16,833,880
Vocational instruction	1,225,442	1,281,012	1,337,424	1,302,300
Other instruction	3,065,679	2,531,422	3,149,408	2,735,824
Support services:				
Student services	2,950,960	2,932,722	2,370,912	2,710,518
Instructional staff services	2,650,565	2,175,810	2,416,102	2,281,345
General administration services	910,675	972,748	987,520	866,761
School administration services	4,851,254	4,728,914	4,513,620	4,334,233
Business services	939,324	665,977	637,746	605,989
Operation and maintenance	9,447,732	10,269,848	9,429,858	8,073,211
Transportation services	2,742,655	2,634,361	2,380,679	2,221,298
Central support services	1,862,127	1,637,307	1,843,267	1,366,893
Non-instructional programs	99,458	169,691	203,213	545,014
Other expenses:				
Facilities acquisition	13,136,293	11,132,215	8,252,288	14,086,458
Long-term debt:				
Principal	-	-	10,150,000	-
Interest and other charges	-	-	507,800	507,500
AEA flowthrough	3,388,142	3,360,178	3,521,789	3,491,973
Total expenditures	$ 104,587,813	$ 99,310,347	$ 105,280,384	$ 97,205,955

See accompanying independent auditors' report.

WATERLOO COMMUNITY SCHOOL DISTRICT

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

Grantor/Program	CFDA Number	Grant Number	Expenditures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
Food Distribution (Noncash)	10.550	N/A	$ 301,361
Child Nutrition Cluster Programs:			
School Breakfast Program	10.553	N/A	406,181
National School Lunch Program	10.555	N/A	1,803,637
Summer Food Service Program for Children	10.559	N/A	63,182
			2,273,000
Cooperative Forestry Assistance	10.664	N/A	$ 913
Total U.S. Department of Agriculture			2,575,274
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	6795-G-00	180,175
Title I Grants to Local Educational Agencies	84.010	6795-MC-04	2,400
Title I Grants to Local Educational Agencies	84.010	6795-M-00	26,272
Title I Grants to Local Educational Agencies	84.010	6795-SI-04	117,024
Title I Grants to Local Educational Agencies	84.010	6795-GC-00	642,519
Title I Grants to Local Educational Agencies	84.010	6795-G-00	2,310,110
Title I Grants to Local Educational Agencies	84.010	6795-D-00	1,523
Title I Grants to Local Educational Agencies	84.010	6795-M-00	158,699
			3,438,722
State Grants for Innovative Programs	84.298	N/A	76,524
Safe and Drug-Free Schools and Communities - State Grants	84.186	N/A	88,929
Vocational Education - Basic Grants to States	84.048	N/A	212,159
Fund for the Improvement of Education	84.215	N/A	8,035
Comprehensive School Reform Demonstration	84.332	N/A	65,950
Special Education - State Personnel Development	84.323	N/A	1,227
English Language Acquisition Grants	84.365	N/A	133,696
Grants for State Assessments and Related Activities	84.369	N/A	170,704
Improving Teacher Quality State Grants	84.367	N/A	798,181

(continued)

WATERLOO COMMUNITY SCHOOL DISTRICT

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

Grantor/Program	CFDA Number	Grant Number	Expenditures
Indirect (continued):			
U.S. Department of Education (continued):			
Grant Wood AEA:			
Education Technology State Grants	84.318	N/A	90,300
Area Education Agency 267:			
Special Education - Grants to States	84.027	N/A	1,002,110
Safe and Drug-Free Schools and Communities-National Programs	84.184	N/A	39,278
Iowa Public Television:			
Star Schools	84.203	N/A	225
Division of Vocational Rehabilitation Services:			
Rehabilitation Services-Vocational Rehabilitation Grants to States	84.126	N/A	81,878
Direct:			
Twenty-First Century Community Learning Centers	84.287	N/A	312,652
Fund for the Improvement of Education	84.215	N/A	600,304
Fund for the Improvement of Education	84.215	V215L042043	226,861
			827,165
Total U.S. Department of Education			7,347,735
Indirect:			
U.S. Department of Health and Human Services:			
Iowa Department of Education:			
Refugee and Entrant Assistance - Discretionary Grants	93.576	N/A	60,760
Tri-County Child & Family Development Council, Inc:			
Head Start	93.600	N/A	388,706
Total U.S. Department of Health and Human Services			449,466
Direct:			
U.S. Department of Justice:			
JROTC	Unknown	N/A	57,004
Total U.S. Department of Justice			57,004
Total			$ 10,429,479

(continued)

WATERLOO COMMUNITY SCHOOL DISTRICT

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

(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

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

500 E. 4th Street, Suite 300
PO Box 1290 Waterloo, Iowa 50704-1290
Telephone (319) 233-3318 Fax (319) 233-1346
E-mail cam@carneycpa.com

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

To the Board of Education
Waterloo Community School District

We have audited the financial statements of the governmental activities, the 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, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated November 4, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we considered to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. 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 II-A-05.

Members of American Institute of Certified Public Accountants

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, 2005 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 IV-B-05.

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 awarding agencies and pass-through entities. 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 4, 2005

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

500 E. 4th Street, Suite 300
PO Box 1290 Waterloo, Iowa 50704-1290
Telephone (319) 233-3318 Fax (319) 233-1346
E-mail cam@carneycpa.com

Independent Auditors' Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education
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-133Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. 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, the standards applicable to financial audits contained inGovernment 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, 2005.

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.

Members of American Institute of Certified Public Accountants

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 grant agreements. The reportable condition is described in the accompanying schedule of findings and questioned costs as items III-A-05.

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 grant agreements 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.

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

November 4, 2005

WATERLOO COMMUNITY SCHOOL DISTRICT

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

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 84.027 - Special Education -Grants to States

CFDA Number 93.600 - Head Start

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 qualify as a low-risk auditee.

WATERLOO COMMUNITY SCHOOL DISTRICT

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

Part II: Findings Related to the Financial Statements:

REPORTABLE CONDITION:

II-A-05 Fixed Asset Management - The District has adopted a fixed asset management system; however, not all of the adopted procedures are being followed. Particularly, fixed asset disposals and transfers are not always reported on the appropriate forms which creates difficulties in reconciling the fixed asset inventory to actual assets located in District facilities.

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 and transfer of fixed assets. The District needs to follow up periodically with each school to coordinate fixed asset information with each schools' representative responsible for reporting fixed asset disposals and transfers.

Response - Training on the proper fixed asset disposal procedures is provided each year at the in-service training session. Reconciliation of fixed assets at individual buildings is and will continue to be part of the regular fixed asset inventory process.

Conclusion - Response accepted.

REPORTABLE CONDITION:

II-B-05 Disbursements Approval - Disbursements for the Physical Plant and Equipment Levy fund were not submitted to the Board for approval during the year.

Recommendation - The District should ensure that all expenditures are properly approved. The District should also review the list of bills presented to the Board at regular meetings to ensure that all claims are included.

Response - This error has been corrected and occurred when the District changed the fund account number for the Physical Plant and Equipment Levy (PPEL) per the Department of Education instructions. However, the old fund account number was hard coded into the list of bills report that is generated for Board approval and any amounts charged to the new fund account number were left off the list. All expenditures did meet the criteria for valid PPEL expenditures.

Conclusion - Response accepted.

WATERLOO COMMUNITY SCHOOL DISTRICT

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

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: 2005
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-05 Title 1 Equipment Management - As reported at Finding II-A-05, 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-05, the provisions of the fixed asset management system need to be reviewed and followed regarding the disposal of Title 1 fixed assets.

Response - Fixed asset disposal and reporting requirements will be reviewed with Title I personnel and corrected information will be submitted to the Iowa Department of Education.

Conclusion - Response accepted.

(continued)

WATERLOO COMMUNITY SCHOOL DISTRICT

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

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-05 Official Depositories - Official depositories have been adopted by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

IV-B-05 Certified Budget - Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the other expenditures programs area.

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, 2005 and will amend its budget by functional area as required to be in compliance with the Code of Iowa.

Conclusion - Response accepted.

IV-C-05 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-05 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-05 Business Transactions - No business transactions between the District and District officials or employees were noted.

IV-F-05 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-05 Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.

IV-H-05 Certified Enrollment - We noted no variance in the basic enrollment data certified to the Department of Education.

IV-I-05 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-05 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.