

CITY OF WATERLOO, IOWA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
JUNE 30, 2006

Prepared By:

City of Waterloo Finance Department
Michelle C. Weidner, CPA, Chief Financial Officer
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Introductory Section



CITY OF WATERLOO, IOWA

CITY HALL • 715 MULBERRY ST. • WATERLOO, IA 50703 • (319) 291-4301 FAX (319) 291-4286

Mayor

TIMOTHY J.
HURLEY

December 29, 2006

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

COUNCIL
MEMBERS

REGINALD A.
SCHMITT
Ward 1

CAROLYN
COLE
Ward 2

HAROLD
GETTY
Ward 3

JOHN A.
KINCAID
Ward 4

RON
WELPER
Ward 5

BOB
GREENWOOD
At-Large

ERIC
GUNDERSON
At-Large

We are pleased to present the Comprehensive Annual Financial Report of the City of Waterloo, Iowa (the "City") for the fiscal year ended June 30, 2006 in accordance with the provisions of Chapter 11 of the Code of Iowa. This report represents the fourth consecutive year that the financial statements are presented in conformity with Governmental Accounting Standards Board Statement # 34 and the tenth consecutive time that it has been presented in accordance with generally accepted accounting principles. It has also been audited by an independent certified public accounting firm in accordance with generally accepted auditing standards and the single audit act requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Nonprofit Organizations". Hogan-Hansen, P.C., Certified Public Accountants and Consultants issued an unqualified ("clean") opinion on the financial statements for the year ended June 30, 2006. This report is published to provide the City Council, financial institutions and citizens detailed information concerning the financial condition of the City of Waterloo.

Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. Management assumes this responsibility based on a comprehensive framework of internal control established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. Management therefore believes the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial activity have been included.

To facilitate the understanding of the City's financial affairs, this report is organized into four sections:

- **Introductory Section** - Includes the table of contents, this transmittal letter, the Certificate of Achievement for Excellence in Financial Reporting issued by the Government Finance Officers Association of the United States and Canada, a listing of principal City officials and the City's organizational chart. This section provides unaudited information.

- Financial Section - Includes the independent auditors' report, management's discussion and analysis, and the basic financial statements together with accompanying notes, required supplementary information including the budgetary comparison schedules and other supplementary information, including combining statements for nonmajor funds and schedules that provide detailed information relative to the basic financial statements.
- Statistical Section - Contains comprehensive statistical data that is intended to provide a broader and more complete understanding of the financial and economic trends of the City, generally presented on a multi-year basis. This section is also unaudited.
- Financial Assistance Section - Includes schedules of federal financial assistance received and expended in addition to schedules detailing compliance with laws and regulations.

Management is required to provide a narrative introduction, overview and analysis of the basic financial statements, known as Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A, found at pages 3 through 15 and should be read in conjunction with it. The information presented in the Statistical Section has been revised to reflect the implementation of Governmental Accounting Standards Board Statement No. 44 effective with this report. Management believes that readers of the financial statements will find the new format useful for understanding City operations.

THE CITY'S BACKGROUND AND SERVICES

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

The City of Waterloo provides a full range of municipal services to its citizens and is organized into 20 operating departments, the activities of which are directed by the Mayor. The public services provided by the employees of the City include police and fire protection, the construction and maintenance of highways, streets and other infrastructure through the planning, engineering, street maintenance and traffic safety departments and recreational and cultural and arts services provided through the library, leisure services, and cultural and arts departments. The City also provides solid waste collection and waste water treatment through the waste management services department and operates a regional airport. Various other human services are provided through the community development, housing and human rights departments. In addition, the central garage provides vehicle maintenance services, while the human resources and management information systems departments, city attorney, city clerk and chief financial officer and their respective departments perform various administrative functions.

Funds, agencies, boards, commissions, trusts and authorities involved in the provision of municipal services must be included in the City's financial reporting as component units if the City is financially accountable for them. Although the Waterloo Water Works and the Waterloo Convention & Visitors Bureau, Inc. are operated as independent entities, they do meet the requirements to be considered component units of the City, and therefore, transactions of these entities are required to be included in this report. The Waterloo Community School District and the Metropolitan Transit Authority do not meet the established criteria for component entities of the City and are therefore not included in this report.

MAJOR INITIATIVES AND PROJECTS

The City has undertaken a number of major initiatives to improve the City. Brief descriptions of these major projects are described below.

- Cedar Valley Riverfront Renaissance
Construction of portions of a major project identified as the Cedar Valley Riverfront Renaissance Plan is currently underway. This project will draw the community together around the Cedar River, one of the area's most valuable natural resources, re-establish a strong center for downtown, help recruit significant new business, expand tourism and improve the use of existing facilities. It includes the following projects, among others:
 - Cedar River Plaza
 - Riverwalk Loop
 - Cedar River Dam Improvements
 - Grout Museum Addition
 - East Side Ministerial Alliance Community Center
 - Youth Pavilion at Waterloo Center for the Arts

The Riverfront Renaissance project is being funded using distributions from the Black Hawk County Solid Waste Commission in addition to funds received from the Vision Iowa program. The first three projects listed above have been approved to receive \$7.3 million from the Vision Iowa program. As a part of that award, the City also participated in funding the construction of the East Side Ministerial Alliance Community Center. Black Hawk County and the cities of Cedar Falls, Evansdale and Waterloo presented a combined application to the Vision Iowa Program. The communities received a total award of \$9.5 million, which will result in a total investment of more than \$35 million in these communities. The City's award under the Vision Iowa program had been contested legally, however; this situation was resolved in the City's favor. The construction of a \$4.5 million Youth Pavilion addition to the City of Waterloo Center for the Arts facility is currently underway and the contract for the construction of the Riverwalk Loop recreational trail from East 6th Street to East 18th Street has recently been awarded.

- **RiverLoop Expo**
Design for the RiverLoop Expo grounds near the Five Sullivan Brothers Convention Center and the future Cedar River Plaza is underway. The City has acquired a number of properties in the downtown area to create exhibition grounds that will link downtown destinations, in addition to eliminating blight in the heart of downtown. Current plans define the grounds as a flexible community gathering space and outdoor exhibit space for conventions and trade shows.
- **Former Rath Packing and John Deere Brownfields Pilot Area**
The City of Waterloo has secured nearly \$13.3 million in funding over the past six years to be used to revitalize the former Rath Packing and John Deere Brownfields area, one of the oldest areas in the City. These funds are being used for a variety of projects, such as the replacement of the Eighteenth Street Bridge, a study of the hydrology of the Cedar River, and the acquisition and redevelopment of property along the riverfront and throughout the Brownfields area in addition to the investigation and associated risk assessment of perceived environmental impairments in the Brownfields Pilot Area.

The Eighteenth Street Bridge was opened to traffic in the fall of 2005. It is assisting in the redevelopment of the Rath neighborhood by eliminating the impediments for truck traffic to the area. The replacement of the 70-year-old bridge was a \$6 million project funded with local, state and federal sources. These improvements have helped the City of Waterloo enter into development agreements with Powers Manufacturing and Crystal Distribution for expansion projects in this area adding nearly 100,000 square feet of new space and over 20 new jobs to the Brownfields area.

A \$1 million pilot grant from the Environmental Protection Agency (EPA) to establish a Brownfields Cleanup Revolving Loan Fund (BCRLF) has also been awarded to the City. This BCRLF award is a major component of the EPA's Brownfields Economic Redevelopment Initiative and will enable the City to make low interest loans to facilitate the cleanup and redevelopment of Brownfields properties. The City has applied for and received several grants to redevelop the former Construction Machinery Company site (CMC). CMC is enrolled in the Iowa Department of Natural Resources Land Recycling Program while Chamberlain, the company that formerly operated Chamberlain Manufacturing, is working with the EPA to address potential remediation needs at their former site.

- **Waste Water Treatment Plant**
The City has completed a large portion of the improvements required to the wastewater treatment facilities involving nearly \$67 million in federal and city funding. The contract for the final portion of this project has been awarded and final completion of this project is expected by December 2007.
- **Street Improvements**
Waterloo continues to upgrade its street system with the substantial program of reconstruction, overlays and long-term repairs funded with approximately \$8 million in annual local option sales tax collections. The one-cent local option tax

was renewed in February 2005 by the taxpayers for another five years, continuing to be required to be used for street repairs and improvements.

➤ **Recreational facilities**

The City is also continuing to develop its extensive system of bike trails, which are being connected to countywide and regional trail networks. A new recreational area for all-terrain vehicle trails is being developed in the Riverview neighborhood. Improvements are currently being made to Riverfront Municipal Stadium, the city's baseball facility.

ECONOMIC OUTLOOK

The outlook of the economy of Waterloo and the Cedar Valley area remains positive with continued growth and strong commercial and industrial activity. Construction in Waterloo continued at a pace greater than any year in the previous decade, with a third straight record-breaking year in building permit valuation at \$110.1 million for the year ended June 30, 2006. The median sales price for homes in the Waterloo-Cedar Falls area has increased by 62% since 1997 (an annual average growth rate of 7.7%), appreciating from \$99,500 to \$114,900 during the fiscal year ended June 30, 2006. Retail sales have also increased steadily by an annual average rate of approximately 2% in Waterloo during the past ten years. Retail sales in 1997 totaled \$845 million and have exceeded \$1 billion for the first time during the fiscal year ended June 30, 2006. The 2000 census reflected population growth of 3.4% from 1990. Although Waterloo has not returned to the population levels of the seventies, this increase is significant as it indicates a change in trend from a declining population to a growing population.

Overall city tax base growth remains moderate at an average annual level of approximately 5.4% for the last five years. John Deere and Company continues to play a major role in the local economy. Deere remains the city's largest employer and one of the largest taxpayers, currently accounting for about 6.2% of total county employment and about 0.5% of total taxable property values. Deere has recently invested \$125 million into the redevelopment of its downtown Westfield Avenue site, reflecting the company's continued commitment to the area. Deere's staff levels have remained relatively constant despite the current conditions in the U.S. agriculture sector. John Deere has hired nearly 2,000 people since 2000 under the redevelopment plan, both in new positions and replacing retirees. The city's average unemployment level of 4.8% remains above the state level of 4.2% and only slightly exceeded the national level for June 2006 of 4.6%. Overall annual city employment growth has reduced the unemployment rate substantially from a peak of 7.6% in the early 1990s.

In May 2005, the Isle of Capri was awarded a gaming license to operate a casino facility in southwest Waterloo. Construction is underway for the \$98 million facility, which is expected to employ 800 and generate \$1 million in annual City property taxes. The City will also receive a host city fee of 0.5% of weekly adjusted gross receipts in addition to an annual development fee of 0.5% of weekly adjusted gross receipts for the first two years the casino is in operation, with the development fee increasing to 1% of weekly

adjusted gross receipts after that date. The casino is currently expected to open sometime during the summer of 2007.

It has recently been announced that the City has been selected to be the site of a \$1 billion coal power generation plant. The regulatory approval process for the plant is expected to take approximately one year, with construction occurring the following four years. The plant is expected to open sometime in 2011, and employ 100 full time employees. More than 1,200 construction jobs will be created during the four-year construction period.

The outlook remains positive for the continuation of these upward trends based upon the redevelopment that will occur with the Riverfront Renaissance projects, John Deere's investment in the community, the construction of the casino facility and the power generation plant, as well as the growth in the Mid Port America Industrial Park with Con Agra adding 50 employees, and building a 200,000 square foot expansion valued at \$46 million, and continued development in the Northeast Industrial Park. The construction of a large distribution facility at the Northeast Industrial Park has added a complex valued at more than \$20 million and employing more than 200 individuals. Major commercial expansions in the southern sector of the City, as well as in the new Technology Park, are strong indications of continued business interest in Waterloo.

A new complex, the Cedar Valley TechWorks, is being developed as a combination bioproducts expo and incubator marketplace to help define, expand and nurture the region's emerging bioeconomy. The TechWorks has received a grant of \$3,200,000 from the Iowa Values Fund to develop companies for the new economy. The City plans to undertake stormwater and street improvements to aid in the development of the TechWorks complex.

The long term commercial and industrial viability of the Waterloo/Cedar Falls area is anticipated to continue to improve with the completion in the next few years of two four-lane highway corridors passing through the City with the "Avenue of the Saints" running north to St. Paul from St. Louis, and US Highway 20 running from Chicago to Interstate 35 and programmed to continue west to Interstate 29 at Sioux City. In addition, the City is undertaking a project to study the reconstruction and redevelopment of Highway 63 through downtown Waterloo. This has resulted in the appropriation of \$11,600,000 to complete the design and initiate construction. The primary goals of this project are to correct the highway's current negative impact on adjacent low income and minority-populated communities, improve traffic operations and capacity and encourage private sector development along this corridor.

FINANCIAL MANAGEMENT INFORMATION

Internal Controls - City management is responsible for establishing and maintaining internal controls designed to ensure that the assets of the City are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal control is designed to provide reasonable, but not absolute assurance that those objectives are met. The concept of reasonable assurance recognizes that: (1) the

cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Controls - The City's management staff is responsible and is actively involved in the financial planning and management of the City for both short-term daily operations and long-range strategic planning. The objective of established budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council, as well as the budget control procedures mandated by the State of Iowa for the prevention of spending that would lead to negative fund balance.

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

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

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Waterloo, Iowa for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005. This is the second year that the City received this award, which is a prestigious national award recognizing conformance with the highest standards for the preparation of state and local government financial reports.

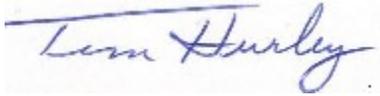
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. The CAFR must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Management believes that the current report continues to meet the Certificate of Achievement program requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

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

Sincerely,



Timothy J. Hurley,
Mayor



Michelle C. Weidner, CPA
Chief Financial Officer

Officials

June 30, 2006

Name	Title	Term Expires
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**Elected
(Before January, 2006)**

Timothy A. Hurley	Mayor	January, 2006
Reginald Schmitt (Appointed)	Council Member - 1st Ward	January, 2006
Carolyn Cole	Council Member - 2nd Ward	January, 2008
Buck Clark	Council Member - 3rd Ward	January, 2006
John Kincaid	Council Member - 4th Ward	January, 2008
Ron Welper	Council Member - 5th Ward	January, 2006
Bob Greenwood	Council Member - At-Large	January, 2006
Eric Gunderson	Council Member - At-Large	January, 2008

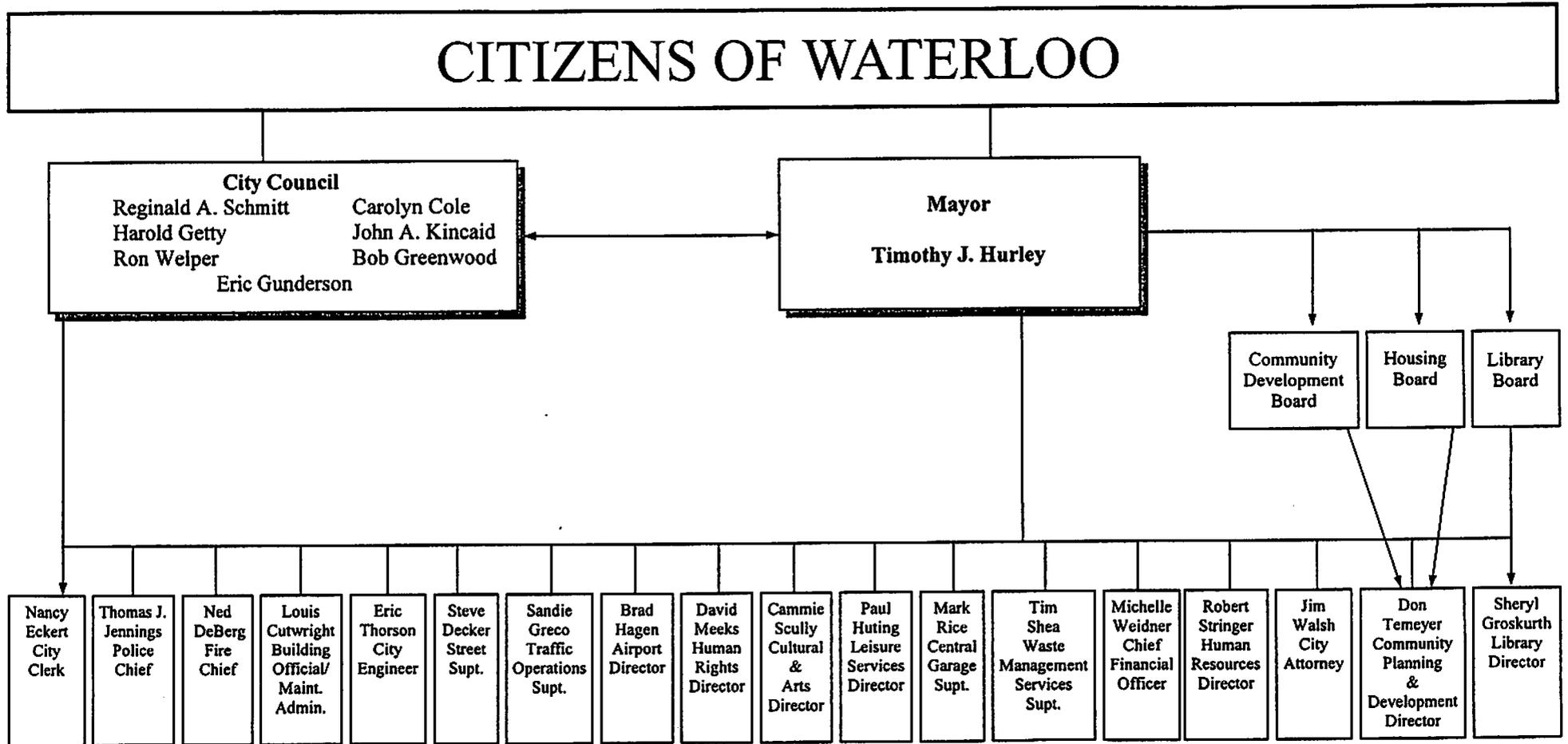
(After December 31, 2005)

Timothy A. Hurley	Mayor	January, 2008
Reginald Schmitt	Council Member - 1st Ward	January, 2010
Carolyn Cole	Council Member - 2nd Ward	January, 2008
Harold Getty	Council Member - 3rd Ward	January, 2010
John Kincaid	Council Member - 4th Ward	January, 2008
Ron Welper	Council Member - 5th Ward	January, 2010
Bob Greenwood	Council Member - At-Large	January, 2010
Eric Gunderson	Council Member - At-Large	January, 2008

Appointed

Michelle Weidner, CPA	Chief Financial Officer	Indefinite
Nancy Eckert, CMC	City Clerk	Indefinite
Eric Thorson, PE	City Engineer	Indefinite
James E. Walsh, Jr.	City Attorney	Indefinite
Ned DeBerg	Chief of Fire Department	Indefinite
Thomas J. Jennings	Chief of Police Department	Indefinite

CITY OF WATERLOO, IOWA — ORGANIZATIONAL STRUCTURE



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Waterloo
Iowa

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

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A Professional Corporation

Certified Public Accountants and Consultants

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Waterloo, Iowa, at and for the year ended June 30, 2006 and the discretely presented component unit, the Waterloo Water Works, at and for the year ended December 31, 2005, and the discretely presented component unit, the Waterloo Convention & Visitors Bureau, Inc., at and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Waterloo, Iowa, at June 30, 2006 and the discretely presented component units at December 31, 2005 and June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 6, 2006 on our consideration of the City of Waterloo, Iowa's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Steven K. Duggan Dennis E. Hogan

Anne M. Halbmaier Stephen J. Kos Dale E. Minor Lisa M. Wall Susan M. Wilson Karilyn A. Wood

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Member of American Institute of CPAs - Iowa Society of CPAs

Cedar Falls • Cedar Rapids • Mason City • Waterloo

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

Management's Discussion and Analysis and budgetary comparison information on pages 3 through 15 and 55 through 57 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. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Waterloo, Iowa's basic financial statements. The accompanying supplemental data on pages 58 through 82, 108 through 112, 116 and 117 is presented for purposes of additional analysis and is not a required part of the financial statements of the City of Waterloo, Iowa. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the aforementioned financial statements taken as a whole. Information included in the statistical section (pages 83 through 103) has not been audited by us and we express no opinion or provide any other assurance on it.

HOGAN - HANSEN

HOGAN - HANSEN

Waterloo, Iowa

February 23, 2006 for the Waterloo Water Works discretely presented component unit,
October 5, 2006 for the Waterloo Convention & Visitors Bureau, Inc. component unit and
December 6, 2006 for all other reporting units

Management's Discussion and Analysis

As management of the City of Waterloo, we offer readers of the City of Waterloo's financial statements this narrative overview and analysis of the financial activities of the City of Waterloo for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found at pages i-viii of this report.

Financial Highlights

- The assets of the City of Waterloo exceeded its liabilities at the close of the most recent fiscal year by \$181,762,261 (net assets). Of this amount, \$13,465,879 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$19,717,070.
- As of the close of this current fiscal year, the City of Waterloo's governmental funds reported combined ending fund balances of \$43,640,470, an increase of \$7,589,501 in comparison with the prior year. Approximately 80.28% of this total amount, \$35,036,226, is available for spending at the government's discretion (unreserved undesignated fund balance), although some funds are legally limited for specified purposes.
- At the end of the current fiscal year, unreserved undesignated fund balance for the General Fund was \$5,679,449, or 16.58% of total General Fund expenditures.
- The City of Waterloo's total debt increased by \$1,794,724 (1.86%) during the current fiscal year.

Overview of the Financial Statements

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

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

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

The statement of activities presents information illustrating how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Waterloo, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Waterloo can be divided into two categories: governmental funds and proprietary funds.

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

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

in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Waterloo maintains 20 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Employee Benefits Fund, Local Option Tax Fund and General Obligation Debt Service Fund, all of which are considered to be major funds. Data from the other 16 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

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

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Waterloo, assets exceeded liabilities by \$181,762,261 at the close of the fiscal year ended June 30, 2006.

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

Statement of Net Assets

A condensed version of the Statement of Net Assets as of June 30, 2006 and 2005 follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Assets						
Current and other assets	\$ 89,010,568	\$ 77,212,693	\$ 15,540,595	\$ 14,379,108	\$ 104,551,163	\$ 91,591,801
Capital assets	<u>132,030,404</u>	<u>118,407,160</u>	<u>87,589,507</u>	<u>88,072,924</u>	<u>219,619,911</u>	<u>206,480,084</u>
Total Assets	<u>\$ 221,040,972</u>	<u>\$ 195,619,853</u>	<u>\$ 103,130,102</u>	<u>\$ 102,452,032</u>	<u>\$324,171,074</u>	<u>\$ 298,071,885</u>
Liabilities						
Current liabilities	\$ 49,946,419	\$ 45,163,248	\$ 4,616,073	\$ 4,040,579	\$ 54,562,492	\$ 49,203,827
Long-term liabilities	<u>61,001,110</u>	<u>58,115,227</u>	<u>26,845,211</u>	<u>28,707,640</u>	<u>87,846,321</u>	<u>86,822,867</u>
Total Liabilities	<u>\$ 110,947,529</u>	<u>\$ 103,278,475</u>	<u>\$ 31,461,284</u>	<u>\$ 32,748,219</u>	<u>\$ 142,408,813</u>	<u>\$ 136,026,694</u>
Net Assets						
Invested in capital assets, net of related debt	\$ 69,770,404	\$ 56,719,559	\$ 57,945,809	\$ 56,679,067	\$ 127,716,213	\$ 113,398,626
Restricted	<u>34,279,423</u>	<u>29,460,969</u>	<u>6,300,746</u>	<u>4,969,352</u>	<u>40,580,169</u>	<u>34,430,321</u>
Unrestricted	<u>6,043,616</u>	<u>6,160,850</u>	<u>7,422,263</u>	<u>8,055,394</u>	<u>13,465,879</u>	<u>14,216,244</u>
Total Net Assets	<u>\$ 110,093,443</u>	<u>\$ 92,341,378</u>	<u>\$ 71,668,818</u>	<u>\$ 69,703,813</u>	<u>\$ 181,762,261</u>	<u>\$ 162,045,191</u>

\$40,580,169 of the City of Waterloo's net assets (22.3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$13,465,879) may be used to meet the government's ongoing obligations to citizens and creditors.

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

The City's total net assets increased by \$19,717,070 during the current fiscal year. Governmental-type activities' net assets increased by \$17,752,065. This increase was largely related to the net effect of capital asset transactions. See page 24 for a reconciliation of this increase. The total business-type activities' net assets increased by \$1,965,005. This increase was also mainly attributable to the City's investment in capital assets during the fiscal year.

Statement of Activities

A condensed version of the Statement of Activities as of June 30, 2006 and 2005 follows:

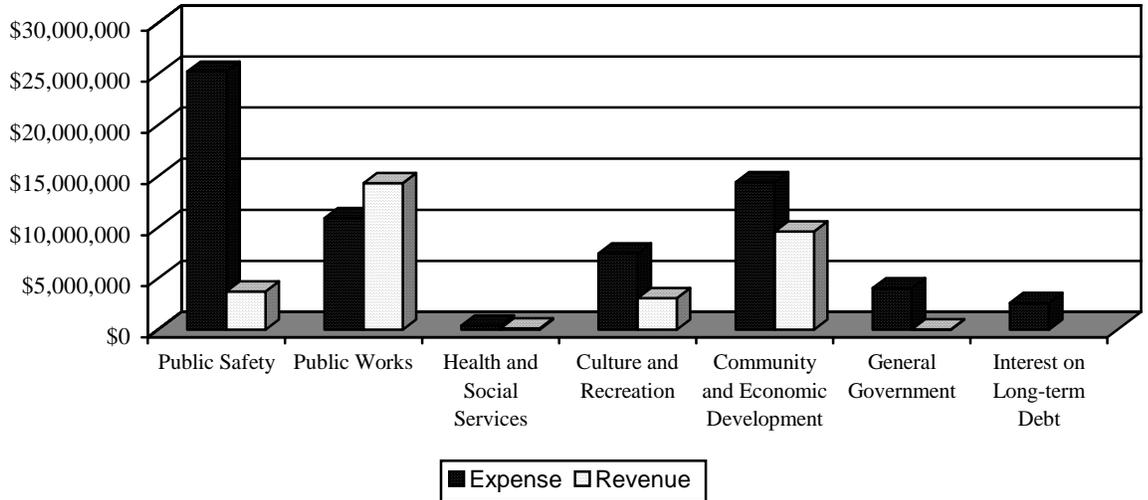
City of Waterloo Governmental and Business-Type Activities

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenue						
Program Revenues						
Charges for services	\$ 6,369,507	\$ 5,573,164	\$ 13,106,773	\$ 12,706,467	\$ 19,476,280	\$ 18,279,631
Indirect allocations	1,464,992	1,427,297	(1,464,992)	(1,427,297)	—	—
Operating grants and contributions	18,358,119	15,780,383	7,361	338,994	18,365,480	16,119,377
Capital grants and contributions	6,241,861	3,970,432	311,303	115,481	6,553,164	4,085,913
General Revenues						
Property taxes	33,613,237	33,041,952	—	—	33,613,237	33,041,952
Other taxes	12,496,242	11,464,827	—	—	12,496,242	11,464,827
Other	4,404,849	3,370,914	402,160	203,004	4,807,009	3,573,918
Total Revenue	<u>82,948,807</u>	<u>74,628,969</u>	<u>12,362,605</u>	<u>11,936,649</u>	<u>95,311,412</u>	<u>86,565,618</u>
Expenses						
Public safety	25,251,052	22,484,306	—	—	25,251,052	22,484,306
Public works	10,928,325	13,142,367	—	—	10,928,325	13,142,367
Health and social services	406,759	326,534	—	—	406,759	326,534
Culture and recreation	7,476,963	7,015,956	—	—	7,476,963	7,015,956
Community and economic development	14,442,627	12,579,963	—	—	14,442,627	12,579,963
General government	4,065,216	3,422,145	—	—	4,065,216	3,422,145
Interest on long-term debt	2,625,800	2,540,869	—	—	2,625,800	2,540,869
Sanitary sewer	—	—	7,974,232	7,558,811	7,974,232	7,558,811
Sanitation	—	—	2,423,368	2,285,864	2,423,368	2,285,864
Total Expenses	<u>65,196,742</u>	<u>61,512,140</u>	<u>10,397,600</u>	<u>9,844,675</u>	<u>75,594,342</u>	<u>71,356,815</u>
Increase in Net Assets	17,752,065	13,116,829	1,965,005	2,091,974	19,717,070	15,208,803
Beginning Net Assets	<u>92,341,378</u>	<u>79,224,549</u>	<u>69,703,813</u>	<u>67,611,839</u>	<u>162,045,191</u>	<u>146,836,388</u>
Ending Net Assets	<u>\$ 110,093,443</u>	<u>\$ 92,341,378</u>	<u>\$ 71,668,818</u>	<u>\$ 69,703,813</u>	<u>\$ 181,762,261</u>	<u>\$ 162,045,191</u>

Total governmental activities' revenue for the current fiscal year was \$82,948,807. The largest single revenue source for the City was property taxes of \$33,613,237. Property taxes increased by \$571,285 (1.73%) during the year. This increase is a result of a combination of factors, including a 0.5% increase in the assessed value of property, a 0.2% increase in the taxable value of property, and a 1.95% increase in the levy rate.

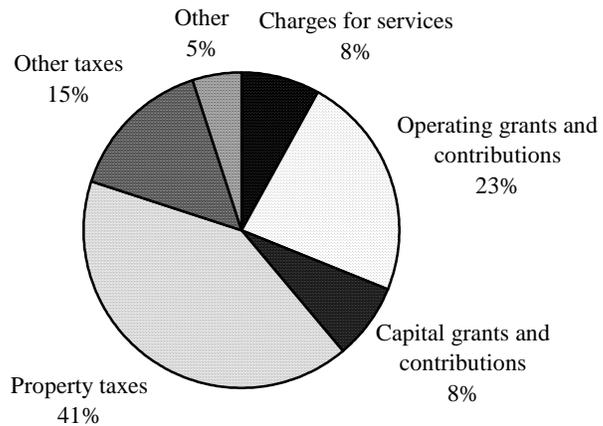
Certain revenues are generated that are specific to governmental program activities. These totaled \$32,434,479 during the fiscal year ended June 30, 2006. The graph below illustrates the comparison between the expenditures by governmental activity type and the revenues generated that are specific to those activities.

Expenses and Program Revenues – Governmental Activities



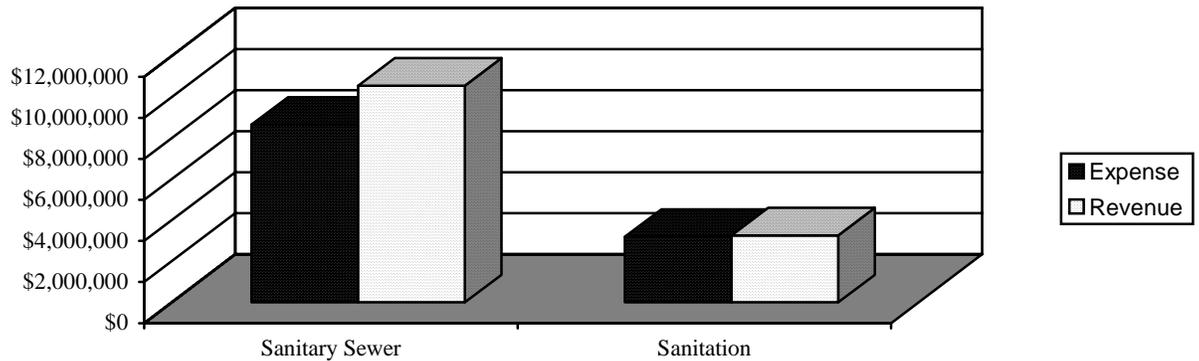
The graph below shows the percentage of the total governmental revenues allocated by each revenue type.

Revenues by Source – Governmental Activities



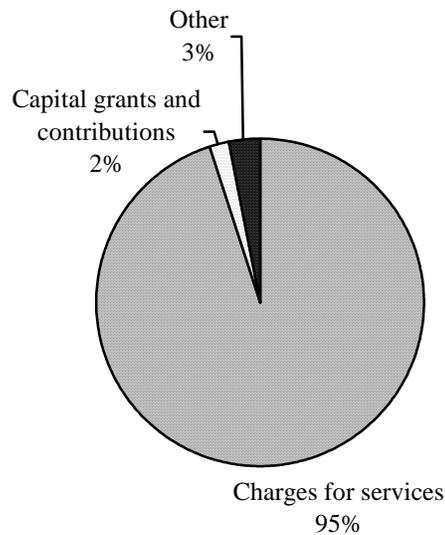
Total business-type activities' revenue for the fiscal year was \$13,827,597. All of this revenue was generated for specific business-type activity expenses. The graph below shows a comparison between the business-type activity expenses and program revenues.

Expenses and Program Revenues – Business-type Activities



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

Revenues by Source – Business-type Activities



Business-type activities. Business-type activities increased the City of Waterloo's net assets by \$1,965,005, accounting for 10% of the growth in the government's net assets. This increase was due primarily to the generation of operating revenue to retire debt incurred for sewer plant construction.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City of Waterloo's governmental funds reported combined ending fund balances of \$43,640,470, an increase of \$7,589,501 in comparison with the prior year. Fund balance in the amount of \$3,417,723 is not available for new spending because it has already been committed for a variety of restricted purposes. Approximately 92.2% of total fund balance (\$40,222,747) constitutes unreserved fund balance. \$29,356,777 of this total balance is restricted for the type of use of the fund that generated the revenue. (For example, the Local Option Tax Fund has unreserved fund balance of \$7,851,962 which may be used only for the purposes specified in the authorizing referendum.) \$5,186,521 of the total governmental funds unreserved fund balance (\$40,222,747) has been designated by the City Council for specified purposes, leaving \$35,036,226 in uncommitted funds.

The General Fund is the chief operating fund of the City of Waterloo. At the end of the current fiscal year, unreserved, undesignated fund balance of the General Fund was \$5,679,449, while total fund balance was \$12,707,359. As a measure of the General Funds' liquidity, it may be useful to compare both unreserved, undesignated fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 16.6% of total General Fund expenditures, while total fund balance represents 37.1% of that same amount.

The fund balance of the City of Waterloo's General Fund increased by \$2,299,947 during the current fiscal year. Several things contributed to this increase. The City originally budgeted to spend all non-restricted resources, consequently budgeting for no change in unreserved fund balance. However, the building inspection department collected \$115,000 more revenue than it was budgeted to receive. The clerk/finance department collected \$527,000 more revenue than budgeted, primarily investment income. In addition, net expenditures incurred by the police department were under budget by approximately \$396,000, net expenditures incurred by the fire department were under budget by approximately \$253,000 and various insurance expenditures were \$764,000 less than budgeted. The remaining balance arose from various other departments that spent less than the amount budgeted for their department or that received more revenue than budgeted. Most budgetary savings realized by departments were due to employee positions that were vacant for part of the year.

The Employee Benefits Fund has a total fund balance of \$655,455, all of which is reserved for the payment of employee benefits. The net increase in fund balance during the current year was \$321,041, due primarily to health insurance costs being less than expected.

The Local Option Tax Fund net assets increased by \$1,424,511 during the current year to a total fund balance of \$7,851,962, all of which is reserved for street repairs, construction and improvements. The increase is due partially to the receipt of higher than anticipated revenue and partially due to setting aside resources for the planned Brownfields street reconstruction project, which had not yet been started at June 30, 2006. A substantial portion of this balance will be used to satisfy outstanding construction contract commitments of \$8.8 million.

The Debt Service Fund has a total fund balance of \$1,323,029, all of which is reserved for the payment of debt service. The net increase in fund balance during the current year in the Debt Service Fund was \$622,464. This increase primarily arose from Tax Increment District revenue collections that exceeded expectations. This revenue was transferred to the Debt Service Fund to be used to retire tax increment debt.

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

Total net assets of the sanitary sewer fund at the end of the year were \$68,231,989, an increase of \$1,898,014. This increase arose from several sources. Investment income was higher than budgeted, while operating expenses were less than budgeted, due partially to a sewer replacement contract that was delayed to the following fiscal year. The largest share of the increase is due to continued investment in capital assets for the sanitary sewer system.

Other factors concerning the finances of the sanitary sewer fund have already been addressed in the discussion of the City of Waterloo's business-type activities.

Budgetary Highlights

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

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

Differences between the original budget and the final amended budget for the City of Waterloo are summarized below.

The total original expenditure budget including transfers out of \$126,988,894 was increased to \$135,637,131 (an increase of \$8,648,237).

- The City amended the budget to eliminate \$4 million in anticipated refunding bond issues, since the rate environment would not have resulted in savings from a refunding issue.
- The City added a number of capital outlay budgets for numerous projects approved for design and construction after the original budget certification date (\$2.1 million).
- The City added project budgets for several Public Safety department grants and expenses funded with other miscellaneous revenue that were approved after the original budget certification date (\$1.3 million).
- The City changed its internal method of budgeting for parts and fuel purchased by the Central Garage, as well as other interdepartmental transactions subsequent to certifying the original budget (\$5.8 million).
- Project budgets for grant and donation-funded projects for numerous other departments were added after the original budget certification date (\$602,000).
- Transfers out were increased to reflect funds transferred to the Vision Iowa Project Fund and the Capital Improvements fund for construction (\$2.7 million).

The total original revenue budget, including other financing sources of \$122,900,731 was increased to \$132,706,745 (an increase of \$9,806,014).

- The original budget for bond proceeds was increased by \$3 million to reflect an additional issuance for the Riverfront Renaissance project, but decreased by \$4 million due to cancelling an anticipated refunding issue.
- The original budget for other city taxes was amended to reflect the receipt of a \$1 million gaming development fee from the Isle of Capri due to the award of a gaming license to them by the State of Iowa for a new facility to be located in Waterloo.
- Intergovernmental revenue was increased for numerous additional Public Safety grants and capital project construction awarded subsequent to the original budget certification date (\$1.6 million).
- Additional revenue was budgeted in the sewer fund to reflect bond money transferred for sewer improvement construction and in the Vision Iowa and Capital Improvements project funds to reflect resources transferred for project construction (\$3.5 million).
- In addition to the internal method of budgeting change for items purchased by Central Garage, charges for services for various departments were increased based on expected additional revenue (\$4 million).
- Additional local option sales tax revenue was budgeted due to increased collections anticipated (\$400,000).

See pages 55 through 57 for the Budgetary Comparison Schedule - Budget to Actual (Modified Cash Basis) – All Governmental Funds and Proprietary Funds.

Capital Asset and Debt Administration

Capital Assets. The City of Waterloo's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$219,619,911 (net of accumulated depreciation) as reflected in the following table. The total increase in the City of Waterloo's investment in capital assets for the current fiscal year was 6.4% (an 11.5% increase for governmental activities and a 0.6% decrease for business-type activities).

This investment in capital assets includes land, buildings and improvements, park facilities, vehicles and equipment, and roads, highways and bridges (also referred to as infrastructure assets) placed in service since July 1, 2005 or under construction at June 30, 2006. The City has until June 30, 2007 to retroactively report infrastructure assets placed in service prior to July 1, 2002.

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 27,306,080	\$ 26,880,522	\$ 279,484	\$ 279,484	\$ 27,585,564	\$ 27,160,006
Land held for redevelopment	4,089,727	2,598,688	—	—	4,089,727	2,598,688
Buildings and improvements	32,530,545	33,509,389	58,453,675	59,815,100	90,984,220	93,324,489
Other improvements	—	—	24,875,776	24,265,487	24,875,776	24,265,487
Infrastructure	43,952,080	41,124,054	—	—	43,952,080	41,124,054
Furniture and equipment	89,209	121,682	2,296	4,216	91,505	125,898
Vehicles, machinery and equipment	5,987,739	5,521,182	1,382,645	1,203,251	7,370,384	6,724,433
Assets under capital lease	—	458,066	—	—	—	458,066
Construction in progress	<u>18,075,024</u>	<u>8,193,577</u>	<u>2,595,631</u>	<u>2,505,386</u>	<u>20,670,655</u>	<u>10,698,963</u>
Total Capital Assets	<u>\$ 132,030,404</u>	<u>\$ 118,407,160</u>	<u>\$ 87,589,507</u>	<u>\$ 88,072,924</u>	<u>\$ 219,619,911</u>	<u>\$ 206,480,084</u>

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

- Significant investments in street construction, reconstruction and overlay programs funded with local option taxes were completed (\$4,039,616). An additional \$4,274,888 was invested in street construction, reconstruction and overlay construction still in progress at June 30, 2006.
- Runway and apron rehabilitation at the Waterloo Regional Airport was undertaken, with total expenses of \$2,651,362 by June 30, 2006.
- A number of properties needed for the Riverwalk Loop Exposition Grounds and the construction of the Ansborough/US 20 Interchange were acquired (\$1,734,632). \$1,725,913 was used to acquire properties for future redevelopment.
- Construction on the Youth Pavilion addition to the Waterloo Center for the Arts was begun. \$1,418,541 was invested in this project by June 30, 2006.
- A new fire engine was acquired for the Airport at a cost of \$656,378.

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

Long-term debt. At the end of the current fiscal year, the City of Waterloo had total bonded debt outstanding of \$92,845,000. Of this amount, \$76,650,000 is comprised of debt backed by the full faith and credit of the government. The remainder of the City of Waterloo's bonded debt (\$16,195,000) represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

The City has incurred other debt to construct Ridgeway Towers, purchase land in the City's industrial parks and complete projects, as well as purchase equipment. The City has obligations to employees for benefit time not used at fiscal year end. During the current fiscal year the balance due on these obligations increased by \$637,153.

City of Waterloo Outstanding Debt

Bonded Debt:	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
General obligation bonds	\$ 62,260,000	\$ 59,295,000	\$ 14,390,000	\$ 14,025,000	\$ 76,650,000	\$ 73,320,000
Revenue bonds	—	—	16,195,000	18,520,000	16,195,000	18,520,000
Total Bonded Debt	<u>\$ 62,260,000</u>	<u>\$ 59,295,000</u>	<u>\$ 30,585,000</u>	<u>\$ 32,545,000</u>	<u>\$ 92,845,000</u>	<u>\$ 91,840,000</u>
 Other Debt:						
Loans and notes	\$ 3,097,325	\$ 3,198,850	\$ —	\$ —	\$ 3,097,325	\$ 3,198,850
Capital lease obligations	—	157,024	—	—	—	157,024
Deferred compensation	388,462	489,306	—	—	388,462	489,306
Compensated absences	2,607,073	1,610,527	—	—	2,607,073	1,610,527
Total Other Debt	<u>\$ 6,092,860</u>	<u>\$ 5,455,707</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,092,860</u>	<u>\$ 5,455,707</u>
Total Debt Outstanding	<u>\$ 68,352,860</u>	<u>\$ 64,750,707</u>	<u>\$ 30,585,000</u>	<u>\$ 32,545,000</u>	<u>\$ 98,937,860</u>	<u>\$ 97,295,707</u>

The City of Waterloo's total debt increased by \$1,642,153 (1.7%) during the current fiscal year.

The government issued general obligation bonds in the amount of \$10,100,000 during the current fiscal year. Short-term capital loan notes in the amount of \$250,000 were also issued for the repayment of accumulated sick leave payments to employees.

The City of Waterloo maintains an A1 bond rating from Moody's Investor Services, Inc. for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5% of its total assessed valuation. The current debt limitation for the City of Waterloo is \$140,285,559, which is significantly in excess of the City of Waterloo's outstanding general obligation debt (\$76,650,000) and other debt subject to the debt limitation (\$3,713,486). The total debt subject to this limitation is \$80,363,486, resulting in available debt margin of \$59,922,073.

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

Economic Factors and Next Year's Budgets and Rates

- Property taxes provide approximately 50% of General Fund revenues. Over the past five years, citywide assessed valuations have risen an average of 9.1% annually, while property tax limitations imposed by the State of Iowa have held taxable values to an average annual growth rate of 5.4%. The fiscal year 2007 budget reflects total property tax revenue growth of 2.2%.
- Personnel costs make up a significant portion of City operating costs. Wage increases identified in contractual bargaining agreements are 3% for fiscal year 2007.
- The City continues to face the challenge of funding the increasing costs of employee health care. Effective July 1, 2006, the City changed its fully-insured health care plan to a self-insured plan to help control these costs. The portion of health care premiums paid by participating employees was also increased effective July 1, 2006. Anticipated health care increases of 15% were budgeted for fiscal year 2007.

These factors were considered in preparing the City of Waterloo's budget for fiscal year 2007.

Requests for Information

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

Basic Financial Statements

Statement of Net Assets

At June 30, 2006

	Governmental Activities	Business- Type Activities	Total	Component Units	
				Waterloo Water Works	Waterloo Convention & Visitors Bureau, Inc.
Assets					
Current Assets					
Cash and cash equivalents.....	\$ 47,093,258	\$ 4,668,707	\$ 51,761,965	\$ 1,105,880	\$ 41,188
Investments.....	450,022	—	450,022	716,656	—
Receivables					
Customer accounts, net of allow- ance for uncollectible accounts..	342,918	2,670,381	3,013,299	739,345	—
Property Taxes					
Delinquent.....	304,835	—	304,835	—	—
Succeeding year	35,229,943	—	35,229,943	—	—
Internal accounts	(2,802,670)	2,802,670	—	—	—
Due From Other Governments					
Component unit	—	909,223	909,223	—	—
Primary government	—	—	—	—	184,576
Other	5,482,994	11,826	5,494,820	—	—
Accrued interest.....	—	—	—	8,501	2,509
Loans and notes.....	—	—	—	8,793	—
Inventories and prepaids.....	533,588	23,798	557,386	27,728	4,573
Restricted Assets					
Cash	2,075,097	1,992,975	4,068,072	—	—
Receivables	21,084	121,002	142,086	—	—
Total Current Assets	88,731,069	13,200,582	101,931,651	2,606,903	232,846
Noncurrent Assets					
Restricted Assets					
Cash and cash equivalents	—	2,123,500	2,123,500	—	—
Investments	—	—	—	383,344	—
Investments.....	—	—	—	—	166,497
Loans and notes (net of allowance for uncollectible amounts)	157,094	—	157,094	50,501	—
Special assessments	122,405	—	122,405	126,341	—
Debt issue costs (net of accumulated amortization)	—	216,513	216,513	4,814	—
Capital assets (net of accumulated depreciation)	82,559,573	84,714,392	167,273,965	16,784,485	24,928
Capital assets not being depreciated.....	49,470,831	2,875,115	52,345,946	875,798	—
Total Noncurrent Assets	132,309,903	89,929,520	222,239,423	18,225,283	191,425
Total Assets.....	\$ 221,040,972	\$ 103,130,102	\$ 324,171,074	\$ 20,832,186	\$ 424,271

See accompanying notes to the financial statements.

Statement of Net Assets

At June 30, 2006

	Governmental Activities	Business- Type Activities	Total	Component Units	
				Waterloo Water Works	Waterloo Convention & Visitors Bureau, Inc.
Liabilities					
Current Liabilities					
Accounts and retainages payable	\$ 4,304,309	\$ 877,801	\$ 5,182,110	\$ 97,753	\$ 1,237
Accrued liabilities and other	2,299,662	363,739	2,663,401	201,409	13,666
Due to primary government	—	—	—	879,399	—
Due to component unit.....	184,576	—	184,576	—	—
Due to other governments	—	—	—	57,625	—
Short-term general obligation note	250,000	—	250,000	—	—
Noncurrent liabilities due and payable within one year.....	7,351,750	670,000	8,021,750	60,000	—
Deferred revenue	35,352,348	—	35,352,348	—	—
Current Liabilities Payable from Restricted Assets					
Customer deposits	203,774	247,000	450,774	—	—
Accrued interest	—	112,533	112,533	—	—
Noncurrent liabilities due and payable within one year	—	2,345,000	2,345,000	—	—
Total Current Liabilities	49,946,419	4,616,073	54,562,492	1,296,186	14,903
Noncurrent Liabilities					
Customer deposits	—	—	—	113,344	—
Capital lease obligations	—	—	—	23,561	—
Revenue bonds and notes	—	13,177,556	13,177,556	287,100	—
General obligation bonds and notes.....	55,460,000	13,667,655	69,127,655	—	—
Other loans and notes.....	2,703,200	—	2,703,200	—	—
Compensated absences and deferred compensation.....	2,837,910	—	2,837,910	—	—
Total Noncurrent Liabilities	61,001,110	26,845,211	87,846,321	424,005	—
Total Liabilities	110,947,529	31,461,284	142,408,813	1,720,191	14,903
Net Assets					
Invested in capital assets, net of related debt.....	69,770,404	57,945,809	127,716,213	17,289,622	24,928
Restricted for					
Debt service.....	2,388,990	2,514,333	4,903,323	270,000	—
Improvements.....	23,534,056	3,786,413	27,320,469	—	—
Provider designations.....	8,356,377	—	8,356,377	—	—
Unrestricted	6,043,616	7,422,263	13,465,879	1,552,373	384,440
Total Net Assets	110,093,443	71,668,818	181,762,261	19,111,995	409,368
Total Liabilities and Net Assets	\$ 221,040,972	\$ 103,130,102	\$ 324,171,074	\$ 20,832,186	\$ 424,271

See accompanying notes to the financial statements.

Statement of Activities

Year Ended June 30, 2006

Programs/Functions	Direct Expenses	Indirect Allocations	Program Revenue	
			Charges for Services	Operating Grants and Contributions
Primary Government				
Governmental Activities				
Public safety.....	\$ 25,251,052	\$ —	\$ 1,872,956	\$ 1,790,606
Public works.....	10,928,325	651,500	1,831,575	6,440,060
Health and social services.....	406,759	(75,000)	8,773	135,542
Culture and recreation.....	7,476,963	(690,000)	2,027,873	1,050,835
Community and economic development	14,442,627	(701,492)	602,100	8,935,076
General government.....	4,065,216	(650,000)	26,230	6,000
Interest on long-term debt.....	2,625,800	—	—	—
Total Governmental Activities ...	65,196,742	(1,464,992)	6,369,507	18,358,119
Business-Type Activities				
Sanitary sewer.....	7,974,232	692,000	9,905,507	7,361
Sanitation.....	2,423,368	772,992	3,201,266	—
Total Business-Type Activities ..	10,397,600	1,464,992	13,106,773	7,361
Total Primary Government	\$ 75,594,342	\$ —	\$ 19,476,280	\$ 18,365,480
Component Unit - Waterloo				
Water Works.....	\$ 3,467,514	\$ —	\$ 4,193,407	\$ —
Component Unit - Waterloo				
Convention & Visitors Bureau, Inc.	\$ 363,826	\$ —	\$ —	\$ 373,616
General Revenue, Gains and Transfers				
Taxes				
Property taxes levied for general purposes.....				
Property taxes levied for debt service.....				
Other Taxes				
Local option sales.....				
Utility excise.....				
Gaming.....				
Hotel/motel.....				
Cable television.....				
Mobile home.....				
Investment earnings.....				
Service provided to the City of Waterloo at no charge.....				
Miscellaneous.....				
Total General Revenue, Gains and Transfers.....				
Change in Net Assets				
Net Assets - Beginning of Year				
Net Assets - End of Year.....				

See accompanying notes to the financial statements.

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Program Revenue	Net (Expenses), Revenue and Changes in Net Assets				
	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Waterloo Water Works	Waterloo Convention & Visitors Bureau, Inc.
Capital Grants and Contributions					
\$ 82,035	\$ (21,505,455)	\$ —	\$ (21,505,455)	\$ —	\$ —
6,073,462	2,765,272	—	2,765,272	—	—
—	(187,444)	—	(187,444)	—	—
—	(3,708,255)	—	(3,708,255)	—	—
86,364	(4,117,595)	—	(4,117,595)	—	—
—	(3,382,986)	—	(3,382,986)	—	—
—	(2,625,800)	—	(2,625,800)	—	—
6,241,861	(32,762,263)	—	(32,762,263)	—	—
311,303	—	1,557,939	1,557,939	—	—
—	—	4,906	4,906	—	—
311,303	—	1,562,845	1,562,845	—	—
\$ 6,553,164	(32,762,263)	1,562,845	(31,199,418)	—	—
\$ 198,036	—	—	—	923,929	—
\$ —	—	—	—	—	9,790
	24,206,180	—	24,206,180	—	—
	9,407,057	—	9,407,057	—	—
	8,324,021	—	8,324,021	—	—
	1,621,200	—	1,621,200	—	—
	1,000,000	—	1,000,000	—	—
	745,103	—	745,103	—	—
	725,917	—	725,917	—	—
	80,001	—	80,001	—	—
	1,276,369	402,160	1,678,549	57,360	7,293
	—	—	—	(109,640)	—
	3,128,460	—	3,128,460	100,992	920
	50,514,328	402,160	50,916,488	48,712	8,213
17,752,065	1,965,005	19,717,070	972,641	18,003	
92,341,378	69,703,813	162,045,191	18,139,354	391,368	
\$ 110,093,443	\$ 71,668,818	\$ 181,762,261	\$ 19,111,995	\$ 409,368	

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Balance Sheet - Governmental Funds

At June 30, 2006

	General Fund	Employee Benefits Fund	Local Option Tax Fund	General Obligation Debt Service Fund	Other Governmental Funds	Total
Assets						
Cash and cash equivalents	\$ 11,791,702	\$ 650,254	\$ 8,036,753	\$ 1,144,348	\$ 25,470,201	\$ 47,093,258
Investments	—	—	—	—	450,022	450,022
Receivables						
Customer accounts....	342,918	—	—	—	—	342,918
Property Tax						
Delinquent.....	149,307	93,848	—	57,364	4,316	304,835
Succeeding year	14,663,807	10,679,335	—	6,167,247	3,719,554	35,229,943
Special assessments	122,405	—	—	—	—	122,405
Loans and notes	157,094	—	—	—	—	157,094
Due from other funds ..	674,418	—	—	32,959	103,232	810,609
Due from Other Governments						
Federal.....	143,075	—	—	—	2,192,758	2,335,833
Iowa	575,956	—	1,605,139	—	507,221	2,688,316
Other	206,043	129,470	—	95,967	27,365	458,845
Inventories and prepaids.....	167,954	—	—	—	365,634	533,588
Restricted Assets						
Cash and cash equivalents.....	1,652,351	—	—	50,455	372,291	2,075,097
Receivables	21,084	—	—	—	—	21,084
Total Assets	\$ 30,668,114	\$ 11,552,907	\$ 9,641,892	\$ 7,548,340	\$ 33,212,594	\$ 92,623,847

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

At June 30, 2006

	General Fund	Employee Benefits Fund	Local Option Tax Fund	General Obligation Debt Service Fund	Other Governmental Funds	Total
Liabilities and Fund Balances						
Liabilities						
Accounts payable.....	\$ 608,914	\$ 9,943	\$ 1,245,091	\$ 700	\$ 2,127,293	\$ 3,991,941
Retainages payable	—	—	259,178	—	237,766	496,944
Accrued liabilities	785,337	104,326	14,631	—	171,401	1,075,695
Due to other funds.....	75,478	—	5,820	—	3,531,981	3,613,279
Deferred revenue	15,536,806	10,773,183	252,513	6,224,611	5,655,245	38,442,358
Compensated absences	704,220	—	12,697	—	192,469	909,386
General obligation bonds.....	250,000	—	—	—	—	250,000
Payables from restricted assets	—	—	—	—	203,774	203,774
Total Liabilities	<u>17,960,755</u>	<u>10,887,452</u>	<u>1,789,930</u>	<u>6,225,311</u>	<u>12,119,929</u>	<u>48,983,377</u>
Fund Balances						
Reserved for						
Debt service.....	—	—	—	1,272,574	—	1,272,574
Inventories and prepaids	167,954	—	—	—	84,788	252,742
Donor specifications ..	519,554	—	—	—	—	519,554
Tourism promotion.....	319,660	—	—	—	—	319,660
Public access television	200,854	—	—	—	—	200,854
Airport	—	—	—	50,455	—	50,455
Housing	633,367	—	—	—	—	633,367
Improvements.....	—	—	—	—	168,517	168,517
Unreserved						
Designated for						
Vision Iowa.....	2,438,790	—	—	—	—	2,438,790
Insurance	2,060,628	—	—	—	—	2,060,628
Other	687,103	—	—	—	—	687,103
Undesignated	5,679,449	665,455	7,851,962	—	—	14,196,866
Undesignated, Reported in Nonmajor						
Special revenue funds	—	—	—	—	3,868,291	3,868,291
TIF debt service fund	—	—	—	—	1,008,597	1,008,597
Capital project funds	—	—	—	—	15,962,472	15,962,472
Total Fund Balances	<u>12,707,359</u>	<u>665,455</u>	<u>7,851,962</u>	<u>1,323,029</u>	<u>21,092,665</u>	<u>43,640,470</u>
Total Liabilities and Fund Balances	<u>\$ 30,668,114</u>	<u>\$ 11,552,907</u>	<u>\$ 9,641,892</u>	<u>\$ 7,548,340</u>	<u>\$ 33,212,594</u>	<u>\$ 92,623,847</u>

See accompanying notes to the financial statements.

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

At June 30, 2006

Total Fund Balances for Governmental Funds (Page 21).....	\$ 43,640,470
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds	132,030,404
Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds	3,090,010
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	
General obligation bonds and notes.....	(62,260,000)
Other loans and notes	(3,097,325)
Compensated absences and deferred compensation	(2,995,535)
Accrued interest payable.....	<u>(314,581)</u>
 Net Assets of Governmental Activities (Page 17)	 <u>\$ 110,093,443</u>

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

Year Ended June 30, 2006

	General Fund	Employee Benefits Fund	Local Option Tax Fund	General Obligation Debt Service Fund	Other Govern- mental Funds	Total
Revenue						
Property taxes	\$ 14,259,932	\$ 9,436,474	\$ —	\$ 7,120,381	\$ 2,765,600	\$ 33,582,387
Other taxes	3,257,871	518,681	8,728,227	377,927	24,815	12,907,521
Licenses and permits	1,199,230	—	—	—	17,048	1,216,278
Investment income	390,638	97,661	215,127	84,280	488,683	1,276,389
Rent	636,597	—	—	130,997	152,881	920,475
Intergovernmental	1,826,819	—	5,577	86,364	20,797,697	22,716,457
Charges for services	5,015,496	—	127,658	—	286,825	5,429,979
Interfund charges for service	2,116,492	—	—	—	685,000	2,801,492
Special assessments	52,698	—	—	—	—	52,698
Miscellaneous	1,870,925	85,981	—	—	1,297,083	3,253,989
Total Revenue	<u>30,626,698</u>	<u>10,138,797</u>	<u>9,076,589</u>	<u>7,799,949</u>	<u>26,515,632</u>	<u>84,157,665</u>
Expenditures						
Current						
Public safety	20,752,005	3,269,039	—	—	466,538	24,487,582
Public works	1,114,492	—	7,652,078	—	11,742,167	20,508,737
Health and social services	401,647	—	—	—	—	401,647
Culture and recreation	6,224,449	—	—	—	651,266	6,875,715
Community and economic development	2,080,464	—	—	—	9,097,369	11,177,833
General government	3,676,693	22,203	—	—	—	3,698,896
Debt Service						
Principal	—	—	—	6,334,788	216,836	6,551,624
Interest and fees	—	—	—	2,447,084	180,724	2,627,808
Capital projects	—	—	—	—	9,570,650	9,570,650
Total Expenditures	<u>34,249,750</u>	<u>3,291,242</u>	<u>7,652,078</u>	<u>8,781,872</u>	<u>31,925,550</u>	<u>85,900,492</u>
Revenue Over (Under)						
Expenditures	<u>(3,623,052)</u>	<u>6,847,555</u>	<u>1,424,511</u>	<u>(981,923)</u>	<u>(5,409,918)</u>	<u>(1,742,827)</u>
Other Financing Sources (Uses)						
Transfers in	6,753,714	—	—	1,754,387	1,925,804	10,433,905
Transfers out	(1,062,543)	(6,526,514)	—	(150,000)	(2,694,848)	(10,433,905)
Proceeds from sale of assets	231,828	—	—	—	500	232,328
Long-term bonds issued	—	—	—	—	9,100,000	9,100,000
Total Other Financing Sources (Uses)	<u>5,922,999</u>	<u>(6,526,514)</u>	<u>—</u>	<u>1,604,387</u>	<u>8,331,456</u>	<u>9,332,328</u>
Net Change in Fund Balances	<u>2,299,947</u>	<u>321,041</u>	<u>1,424,511</u>	<u>622,464</u>	<u>2,921,538</u>	<u>7,589,501</u>
Fund Balances - Beginning of Year	10,407,412	344,414	6,427,451	700,565	18,171,127	36,050,969
Fund Balances - End of Year	<u>\$ 12,707,359</u>	<u>\$ 665,455</u>	<u>\$ 7,851,962</u>	<u>\$ 1,323,029</u>	<u>\$ 21,092,665</u>	<u>\$ 43,640,470</u>

See accompanying notes to the financial statements.

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

Year Ended June 30, 2006

Changes in Fund Balances - Total Governmental Funds (Page 23) \$ 7,589,501

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

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

Capital outlay.....	\$ 19,867,352	
Depreciation expense.....	<u>(4,340,493)</u>	15,526,859

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

Cost of land sold.....	\$ (1,856,982)	
Net book value of depreciable assets sold or scrapped.....	<u>(46,633)</u>	(1,903,615)

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

Capital lease obligation paid	\$ 157,024	
General obligation bonds issued for governmental purposes.....	(9,100,000)	
General obligation bonds repaid	6,135,000	
Other long-term debt issued.....	(158,074)	
Other long-term debt repaid	259,599	
Compensated absences and deferred compensation accrued.....	(1,157,822)	
Compensated absences and deferred compensation paid	262,120	
Change in accrued interest	<u>(144,244)</u>	(3,746,397)

Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the governmental funds:

Current year	\$ 3,090,010	
Prior year.....	<u>(2,804,293)</u>	<u>285,717</u>

Change in Net Assets of Governmental Activities (Page 19) \$ 17,752,065

Balance Sheets - Enterprise Funds

At June 30, 2006

	<u>Major</u> <u>Sanitary Sewer</u>	<u>Nonmajor</u> <u>Sanitation</u>	<u>Total</u>
Current Assets			
Cash	\$ 3,127,059	\$ 1,541,648	\$ 4,668,707
Customer accounts receivable	1,953,426	716,955	2,670,381
Due from other funds.....	379,868	—	379,868
Due from Other Governments			
Waterloo Water Works	601,194	308,029	909,223
Other	5,250	6,576	11,826
Inventories and prepaids	23,798	—	23,798
Restricted Assets			
Cash.....	1,919,475	73,500	1,992,975
Due from other funds	2,422,802	—	2,422,802
Due from other governments	121,002	—	121,002
Total Current Assets	<u>10,553,874</u>	<u>2,646,708</u>	<u>13,200,582</u>
Noncurrent Assets			
Restricted Assets			
Cash.....	2,123,500	—	2,123,500
Capital assets (net of accumulated depreciation)	83,696,256	1,018,136	84,714,392
Capital assets not being depreciated	2,875,115	—	2,875,115
Bond issue costs (net of accumulated amortization - \$133,737)	216,513	—	216,513
Total Noncurrent Assets	<u>88,911,384</u>	<u>1,018,136</u>	<u>89,929,520</u>
Total Assets	<u>\$ 99,465,258</u>	<u>\$ 3,664,844</u>	<u>\$ 103,130,102</u>
Liabilities and Net Assets			
Current Liabilities			
Accounts payable	\$ 676,196	\$ 104,699	\$ 780,895
Retainages payable.....	96,906	—	96,906
Accrued liabilities.....	172,117	28,379	200,496
Current maturities of general obligation bonds	670,000	—	670,000
Compensated absences.....	141,806	21,437	163,243
Payable from Restricted Assets			
Security deposits.....	173,500	73,500	247,000
Accrued interest, revenue bonds	112,533	—	112,533
Current portion of revenue bonds	2,345,000	—	2,345,000
Total Current Liabilities	<u>4,388,058</u>	<u>228,015</u>	<u>4,616,073</u>
Noncurrent Liabilities			
Long-Term Debt			
General obligation bonds	13,667,655	—	13,667,655
Revenue bonds	13,177,556	—	13,177,556
Total Noncurrent Liabilities	<u>26,845,211</u>	<u>—</u>	<u>26,845,211</u>
Total Liabilities.....	<u>31,233,269</u>	<u>228,015</u>	<u>31,461,284</u>
Net Assets			
Invested in capital assets, net of related debt	56,927,673	1,018,136	57,945,809
Restricted for debt service.....	2,514,333	—	2,514,333
Restricted for improvements.....	3,786,413	—	3,786,413
Unrestricted	5,003,570	2,418,693	7,422,263
Total Net Assets.....	<u>68,231,989</u>	<u>3,436,829</u>	<u>71,668,818</u>
Total Liabilities and Net Assets	<u>\$ 99,465,258</u>	<u>\$ 3,664,844</u>	<u>\$ 103,130,102</u>

See accompanying notes to the financial statements.

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

Year Ended June 30, 2006

	<u>Major</u> <u>Sanitary Sewer</u>	<u>Nonmajor</u> <u>Sanitation</u>	Total
Operating Revenue			
Charges for sales and service	<u>\$ 9,905,507</u>	<u>\$ 3,201,266</u>	<u>\$ 13,106,773</u>
Operating Expenses			
Salaries and employee benefits	1,862,288	849,744	2,712,032
Contractual services	1,857,531	979,235	2,836,766
Intra-city reimbursements	692,000	772,992	1,464,992
Commodities	612,104	359,505	971,609
Depreciation	<u>2,071,306</u>	<u>234,884</u>	<u>2,306,190</u>
Total Operating Expenses	<u>7,095,229</u>	<u>3,196,360</u>	<u>10,291,589</u>
Operating Income	<u>2,810,278</u>	<u>4,906</u>	<u>2,815,184</u>
Nonoperating Revenue (Expenses)			
Interest income	340,075	62,085	402,160
Intergovernmental	7,361	—	7,361
Interest expense	(1,527,421)	—	(1,527,421)
Amortization of bond issue costs	<u>(43,582)</u>	<u>—</u>	<u>(43,582)</u>
Total Nonoperating Revenue (Expenses)	<u>(1,223,567)</u>	<u>62,085</u>	<u>(1,161,482)</u>
Change in Net Assets Before			
Contributions	1,586,711	66,991	1,653,702
Capital Contributions			
Federal construction grant	16,516	—	16,516
Customers and developers	<u>294,787</u>	<u>—</u>	<u>294,787</u>
Change in Net Assets	1,898,014	66,991	1,965,005
Net Assets - Beginning of Year	<u>66,333,975</u>	<u>3,369,838</u>	<u>69,703,813</u>
Net Assets - End of Year	<u>\$ 68,231,989</u>	<u>\$ 3,436,829</u>	<u>\$ 71,668,818</u>

See accompanying notes to the financial statements.

Statement of Cash Flows - Enterprise Funds

Year Ended June 30, 2006

	<u>Major</u> Sanitary Sewer	<u>Nonmajor</u> Sanitation	Total
Cash Flows From Operating Activities			
Receipts from customers and users	\$ 9,857,378	\$ 3,210,353	\$ 13,067,731
Payments to suppliers	(2,476,544)	(1,324,926)	(3,801,470)
Payments to or on behalf of employees	(1,787,073)	(835,035)	(2,622,108)
Payment for interfund services used	(692,000)	(774,486)	(1,466,486)
Net Cash Provided By Operating Activities ...	<u>4,901,761</u>	<u>275,906</u>	<u>5,177,667</u>
Cash Flows From Noncapital Financing Activities			
Operating grant.....	<u>7,361</u>	<u>274,988</u>	<u>282,349</u>
Cash Flows From Capital and Related Financing Activities			
Capital grants and contributions	286,017	—	286,017
Purchase and construction of capital assets	(925,848)	(303,776)	(1,229,624)
Principal paid on debt.....	(2,960,000)	—	(2,960,000)
Interest paid on debt.....	(1,383,945)	—	(1,383,945)
Net Cash Used in Capital and Related Financing Activities	<u>(4,983,776)</u>	<u>(303,776)</u>	<u>(5,287,552)</u>
Cash Flows From Investing Activities			
Collection of notes and special assessments.....	22,912	—	22,912
Prior bond proceeds pooled with governmental funds	695,889	—	695,889
Interest received	340,075	62,085	402,160
Net Cash Provided By Investing Activities	<u>1,058,876</u>	<u>62,085</u>	<u>1,120,961</u>
Net Increase in Cash	984,222	309,203	1,293,425
Cash at Beginning of Year.....	<u>6,185,812</u>	<u>1,305,945</u>	<u>7,491,757</u>
Cash at End of Year.....	<u>\$ 7,170,034</u>	<u>\$ 1,615,148</u>	<u>\$ 8,785,182</u>
Reconciliation of Operating Income to Net Cash Provided By Operating Activities			
Operating income	\$ 2,810,278	\$ 4,906	\$ 2,815,184
Adjustments to Reconcile Income From Operations to Net Cash Provided By Operating Activities			
Depreciation	2,071,306	234,884	2,306,190
Decrease in accounts receivable.....	4,754	25,228	29,982
Decrease in due from other funds	6,933	—	6,933
(Increase) in due from other governments	(52,883)	(16,141)	(69,024)
(Increase) in inventories and prepaids	(11,331)	—	(11,331)
Increase in accounts payable	37,855	13,814	51,669
Increase (decrease) in accrued liabilities	(29,921)	5,382	(24,539)
(Decrease) in due to other funds	—	(1,494)	(1,494)
Increase in compensated absences	64,770	9,327	74,097
Net Cash Provided by Operating Activities	<u>\$ 4,901,761</u>	<u>\$ 275,906</u>	<u>\$ 5,177,667</u>

See accompanying notes to the financial statements.

Statement of Cash Flows - Enterprise Funds

Year Ended June 30, 2006

	<u>Major</u> <u>Sanitary Sewer</u>	<u>Nonmajor</u> <u>Sanitation</u>	Total
Schedule of Noncash Investing and Financing Activities			
Payables for Acquisition of Capital Assets	<u>\$ 174,689</u>	<u>\$ —</u>	<u>\$ 174,689</u>
Amortization of Bond Issue Costs	<u>\$ 43,582</u>	<u>\$ —</u>	<u>\$ 43,582</u>
Amortization of Discounts and Reacquisition Costs	<u>\$ 152,571</u>	<u>\$ —</u>	<u>\$ 152,571</u>
Accrual of Interest Expense	<u>\$ 167,509</u>	<u>\$ —</u>	<u>\$ 167,509</u>
Donated Capital Assets Received as Capital Contributions.....	<u>\$ 164,787</u>	<u>\$ —</u>	<u>\$ 164,787</u>
Bond Proceeds Held By Other Funds	<u>\$ 1,000,000</u>	<u>\$ —</u>	<u>\$ 1,000,000</u>

See accompanying notes to the financial statements.

Notes to the Financial Statements

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Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

Reporting Entity

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

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions, authorities and material component units. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Waterloo (the primary government) and its discretely presented component units, the Waterloo Water Works and Waterloo Convention & Visitors Bureau, Inc. Complete financial statements of the Waterloo Water Works component unit can be obtained from the Waterloo Water Works administrative office, 325 Sycamore Street, Waterloo, Iowa. Complete financial statements of the Waterloo Convention & Visitors Bureau, Inc. can be obtained from their office at 313 East 5th Street, Waterloo, Iowa.

Blended Component Units

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

(1) Summary of Significant Accounting Policies

Discrete Component Units

Waterloo Water Works

The Waterloo Water Works is a component unit that is legally separate from the City, but is financially accountable to the City. The Waterloo Water Works is governed by a three-member board appointed by the City Council and its operating budget is subject to the review of the City Council. The Waterloo Water Works operates on a calendar year end and prepares its financial statements in accordance with generally accepted accounting principles. Due to the different year end, the amount reported by the Waterloo Water Works as due to the primary government and the primary government's due from the Waterloo Water Works do not agree by \$29,824.

Waterloo Convention & Visitors Bureau, Inc.

The Waterloo Convention & Visitors Bureau, Inc. is a nonprofit corporation and a component unit of the City of Waterloo, Iowa, (City) whose purpose is to strengthen the local economy by competitively marketing the area as a destination for conventions, tour groups, sporting events and individual travelers.

The Organization's operations are funded primarily by an allocation of the local hotel/motel tax from the City's local transient guest tax. By ordinance, the City allocates 50% of the tax to the Organization.

The Organization is governed by a 15-member Board of Directors. Five members are appointed by the City, five are appointed by the Waterloo Chamber of Commerce and the other five are elected by other members of the Organization's Board.

Basis of Presentation

Government-Wide Financial Statements

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

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

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

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

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

(1) Summary of Significant Accounting Policies

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

Fund Financial Statements

Separate financial statements are provided for governmental and enterprise funds. Major individual governmental funds and the major enterprise fund are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds. The other enterprise fund is reported in a separate column on the enterprise funds financial statements.

The City had the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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

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

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

The City had the following major proprietary fund:

Enterprise Fund

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

(1) Summary of Significant Accounting Policies

Description of Funds

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

Governmental Fund Types

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

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

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

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

Proprietary Fund Type

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

Internal service funds are not utilized by the City.

Fiduciary Fund Type

The City has no fiduciary funds.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue at the same time the related asset is recorded. For reimbursable grants, the asset is recorded as soon as all eligibility requirements imposed by the provider have been met.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

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

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

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

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

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

Direct interfund activity has been eliminated from the government-wide financial statements. Indirect interfund activity is reported in a separate column on the statement of activities.

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

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Cash, Pooled Investments and Cash Equivalents

The cash balances of most City funds are pooled and deposited into interest-bearing demand deposit accounts. Interest earned on investments is allocated among funds in the ratio of cash provided by the fund unless otherwise provided by law. Interest earned by the Road Use Tax Fund is allocated to the General Fund. Investments consist of nonnegotiable certificates of deposit which are stated at cost and deposits in Iowa Public Agency Investment Trust money market accounts. Deposits are stated at fair value which is equivalent to cost plus interest earned.

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

Receivables and Payables

Receivables are reported net of any allowance for uncollectible accounts. At June 30, 2006, the General Fund had allowances for uncollectible customer accounts totaling \$417,455.

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

Property tax revenue became due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; was based on January 1, 2004 assessed property valuations; was for the tax accrual period July 1, 2005 through June 30, 2006; and reflected the tax asking contained in the budget certified to the County Board of Supervisors in March, 2005.

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

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

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

All outstanding balances between funds are reported as "due to/from other funds."

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

Inventories and Prepaids

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

Prepaids consist primarily of a deposit for insurance deductibles and premiums paid in advance.

Restricted Assets

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

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

Unamortized Bond Costs

Original issuance costs of general obligation bonds repaid by the sanitary sewer enterprise fund and sanitary sewer revenue bonds totaling \$350,250 are amortized using the effective interest method over the life of the bonds. Accumulated amortization at June 30, 2006 was \$133,737. Amortization of bond issue costs was \$43,582 for 2006.

Discount on Sanitary Sewer Bonds

Original discounts of \$109,931 on general obligation bonds repaid by the sanitary sewer enterprise fund outstanding at June 30, 2006 are being amortized using the effective interest method over the life of the bonds. Accumulated amortization as of June 30, 2006 was \$57,586. Discount amortization for 2006, which was added to interest expense, was \$8,963.

Net Reacquisition Costs of Refunded Bonds

Reacquisition costs of \$965,353 incurred as a result of the August, 2005 sewer revenue bond refunding transactions, are being amortized over the lives of the refunding issues using the effective interest method. Accumulated amortization at June 30, 2006 was \$292,909. Reacquisition amortization for 2006, including amortization of prior reacquisition costs, which was added to interest expense, was \$143,608.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Interest Capitalized

Construction period interest for business-type activities is capitalized. For projects paid with taxable bonds, interest is capitalized at the amount of cash paid at the effective interest rate to the earlier of the date the asset is placed in service or year end. Interest on tax-exempt debt used for construction is capitalized at the amount incurred, offset by earnings realized by investing debt proceeds until needed. No interest expense was capitalized during the year ended June 30, 2006.

Capital Assets

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset useful lives are not capitalized. Capital assets, other than infrastructure, are defined by the City as assets with an initial, individual cost in excess of \$5,000 and estimated useful lives in excess of one year. Infrastructure is defined by the City as assets available for public use, having a cost of \$50,000 or more and having value only to the City. The City has not retroactively capitalized infrastructure assets. Under current accounting standards, the City has until the year ending June 30, 2007 to complete the capitalization of infrastructure assets. However, infrastructure projects from 2003 through 2006 are included in the government-wide financial statements. Because the infrastructure assets constructed prior to 2003 have not been capitalized, the debt related to infrastructure assets causes the reporting of capital assets net of related debt in the statement of net assets to be lower than it would if the infrastructure were capitalized. Depreciation is computed using the straight-line method over the estimated useful life of the asset with no amount recorded in the year placed in service and a full year in the year removed from service. Estimated useful lives are as follows:

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Deferred Revenue

Deferred revenue in the governmental funds represent receivables which are measurable, but not available.

Short-Term General Obligation Bonds

Annually, the City issues short-term general obligation bonds and records the proceeds, as well as the debt, in the General Fund. The debt is issued as reimbursement for payouts of frozen sick leave. During the following 12 months, the debt plus interest is repaid through the General Obligation Debt Service Fund. An operating transfer is used to transfer the liability from the General Fund to the General Obligation Debt Service Fund. Following is a schedule of short-term debt:

Balance - beginning of year.....	\$ 150,000
Repayments	(150,000)
Borrowings.....	<u>250,000</u>
Balance - End of Year.....	<u>\$ 250,000</u>

Compensated Absences

City ordinances and labor contracts with the City call for the accumulation of vacation, compensatory time and sick leave for subsequent use or for payment upon termination or retirement. During 2001, the City began offering an early sick leave payout option for certain employees. Qualifying employees can elect to receive 60% of the time in their frozen sick leave bank over a five-year period prior to their retirement or termination of employment. Vacation, compensatory time and sick pay are accrued when incurred in the government-wide and the proprietary funds statements and reported as a liability. Mature compensated absences are expected to be liquidated with expendable available financial resources and are reported as an expenditure and a fund liability of the governmental fund. Governmental fund liabilities for unmatured compensated absences are not reported in fund financial statements.

Long-Term Liabilities

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

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

Fund Balance

Reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

Indirect Allocations

Operating funds, departments and activities receive services from supporting funds, departments and activities. Annually, management estimates the value of those services and records applicable indirect allocations. Since there is no approved indirect cost rate for federal programs, activities receiving federal funding are not allocated indirect costs.

Estimates and Assumptions

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

(2) Cash and Investments

The City's deposits at June 30, 2006 were entirely covered by federal depository insurance, National Credit Union insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure that there will be no loss of public funds.

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

On June 30, 2006, the City had investments in the Iowa Public Agency Investment Trust which were valued at an amortized cost of \$4,638,498 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

(3) Leasing Activities

Airport

The Waterloo Municipal Airport has entered into various operating leases with airlines, fixed base operators, auto lease companies, the airport restaurant and hangar tenants. No minimum rentals were due under these leases at June 30, 2006.

(3) Leasing Activities

Soccer Complex

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

Waterloo Hotel Equities, LLC d/b/a Ramada Waterloo Civic and Convention Center

The City has entered into a lease agreement with the Waterloo Hotel Equities, LLC d/b/a Ramada Waterloo Civic and Convention Center (Hotel) for the use of the Five Sullivan Brothers Convention Center and City parking facilities. The term of the lease is from May 23, 2005 through December 31, 2019. The rental rates are based on the gross income and sales of the Five Sullivan Brothers Convention Center, also known as the Ramada Inn Convention Center (Center) paid on a monthly basis. The lease includes a management agreement with the Hotel for the management of the Center.

(4) Loans and Notes

General Fund

Rath/Urban Development Action Grant (UDAG) Loans

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

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

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

Principal and interest received by the City on Rath/UDAG loans are recorded in the General Fund as investment income.

Notes to the Financial Statements

(4) Loans and Notes

Special Revenue Funds

Community Development Block Grant (CDBG) Loans

Low-Interest Loans - The City had 14 low-interest rehabilitation and other loans due at June 30, 2006. Of the total, 10 loans are being serviced by Regions Bank. The City-serviced loans, with a balance of \$5,417 are estimated to be uncollectible. Collections of CDBG loans are grant program income which is reported in the Special Revenue Fund (CDBG) as charges for services as received.

Low-Income Housing Loans - The City has provided five loans for low-income housing projects, three of which have a below-market interest rate and all have minimal payments required each year until maturity. Maturities range from September, 2018 to August, 2024. Cash received is program income and considered to be charges for services.

Forgivable Loans - The City, through its CDBG, provides forgivable rehabilitation loans to low-income households. The loans are forgiven on a sliding scale over a five-year period, provided the home is not sold. If the home is sold, the City's lien against the property prevents a clear title transfer unless the unforgiven portion of the note is satisfied. As of June 30, 2006 the City had made 1,488 such loans totaling \$15,533,513. The loans are not recorded as assets on the accompanying balance sheet or statement of net assets.

(5) Interfund Activity

The composition of interfund balances as of June 30, 2006 was as follows:

Due From/To	Interfund Receivables	Interfund Payables
General Fund.....	\$ 674,418	\$ 75,478
Special Revenue Funds		
Local Option Tax.....	—	5,820
Community Development Block Grant.....	—	98,329
Housing Programs	—	86,451
Grants	5,820	215,939
Federal Aviation Agency Projects	—	273,699
Debt Service Funds		
General Obligation	32,959	—
TIF.....	—	379,868
Capital Projects Funds		
June 2004 GO Bond	—	536,370
June 2005 GO Bond	—	915,299
June 2006 GO Bond	21,934	1,026,026
Vision Iowa Projects.....	60,669	—
Capital Improvements	14,809	—
Enterprise Funds		
Sanitary Sewer.....	<u>2,802,670</u>	<u>—</u>
	<u>\$ 3,613,279</u>	<u>\$ 3,613,279</u>

Notes to the Financial Statements

(5) Interfund Activity

Due to/from primary government and component units:

Due to Enterprise Funds

Sanitary Sewer	\$ 601,194
Sanitation.....	<u>308,029</u>
Due from Waterloo Water Works.....	909,223
Difference.....	<u>879,399</u>
Waterloo Water Works - Due to Primary Government	<u>\$ 29,824</u>

The difference in the above amounts of \$29,824 results from the different year ends of the entities as described in Note 1.

Due to Waterloo Convention & Visitors Bureau, Inc..... **\$ 184,576**

Interfund Transfers

Transfer to	Reason	Transfer From	Amount
General Fund	Employee benefits	Special Revenue Employee Benefits	\$ 6,526,514
	Housing program costs	Nonmajor Governmental	77,200
	Short-term general obligation debt	Debt Service General Obligation	150,000
General Obligation Bond Fund	Convention Center revenue	General Fund	49,635
	Tax increment property tax	Debt Service Nonmajor Governmental Funds	1,700,000
	Close fund	Capital Projects Nonmajor Governmental Funds	4,752
Nonmajor Capital Projects	Allocation to Vision Iowa Project	General Fund	998,099
	Allocation to Youth Pavilion	General Fund	14,809
	Prior bond proceeds reallocated	Special Revenue Nonmajor Governmental	366,817
	Vision Iowa Downtown Urban Renewal	Debt Service Nonmajor Governmental	<u>546,079</u>
Total			<u>\$ 10,433,905</u>

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

Notes to the Financial Statements

(6) Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance - Beginning of Year	Increases	Decreases	Transfers	Balance - End of Year
Governmental Activities					
Capital Assets Not Being Depreciated					
Land.....	\$ 26,880,522	\$ 2,047,666	\$ 1,856,982	\$ 234,874	\$ 27,306,080
Land held for redevelopment.....	2,598,688	1,725,913	—	(234,874)	4,089,727
Construction in progress	8,193,577	14,123,636	—	(4,242,189)	18,075,024
Total Capital Assets Not Being Depreciated.....	<u>37,672,787</u>	<u>17,897,215</u>	<u>1,856,982</u>	<u>(4,242,189)</u>	<u>49,470,831</u>
Capital Assets Being Depreciated					
Buildings and improvements	67,377,569	468,684	37,612	202,573	68,011,214
Infrastructure	42,957,769	252,137	—	4,039,616	47,249,522
Furniture and equipment	674,569	19,501	141,688	—	552,382
Vehicles, machinery and equipment	16,131,820	1,229,815	776,222	463,880	17,049,293
Assets under capital lease	520,575	—	—	(520,575)	—
Total Capital Assets Being Depreciated.....	<u>127,662,302</u>	<u>1,970,137</u>	<u>955,522</u>	<u>4,185,494</u>	<u>132,862,411</u>
Less Accumulated Depreciation for					
Buildings and improvements	33,868,180	1,636,266	23,777	—	35,480,669
Infrastructure	1,833,715	1,463,727	—	—	3,297,442
Furniture and equipment	552,887	44,063	133,777	—	463,173
Vehicles, machinery and equipment	10,610,638	1,141,407	751,335	60,844	11,061,554
Assets under capital lease	62,509	55,030	—	(117,539)	—
Total Accumulated Depreciation	<u>46,927,929</u>	<u>4,340,493</u>	<u>908,889</u>	<u>(56,695)</u>	<u>50,302,838</u>
Net Capital Assets Being Depreciated	<u>80,734,373</u>	<u>(2,370,356)</u>	<u>46,633</u>	<u>4,242,189</u>	<u>82,559,573</u>
Net Governmental Activities					
Capital Assets	<u>\$ 118,407,160</u>	<u>\$ 15,526,859</u>	<u>\$ 1,903,615</u>	<u>\$ —</u>	<u>\$ 132,030,404</u>
Business-Type Activities					
Capital Assets Not Being Depreciated					
Land.....	\$ 279,484	\$ —	\$ —	\$ —	\$ 279,484
Construction in progress	2,505,386	1,229,363	—	(1,139,118)	2,595,631
Total Capital Assets Not Being Depreciated.....	<u>2,784,870</u>	<u>1,229,363</u>	<u>—</u>	<u>(1,139,118)</u>	<u>2,875,115</u>
Capital Assets Being Depreciated					
Buildings	68,144,323	—	—	—	68,144,323
Improvements other than buildings	31,501,239	101,197	—	1,139,118	32,741,554
Furniture and equipment	178,390	—	18,661	—	159,729
Vehicles, machinery and equipment	5,413,771	492,213	304,620	56,695	5,658,059
Total Capital Assets Being Depreciated.....	<u>105,237,723</u>	<u>593,410</u>	<u>323,281</u>	<u>1,195,813</u>	<u>106,703,665</u>
Less Accumulated Depreciation for					
Buildings	8,329,223	1,361,425	—	—	9,690,648
Improvements other than buildings	7,235,752	630,026	—	—	7,865,778
Furniture and equipment	174,174	1,920	18,661	—	157,433
Vehicles, machinery and equipment	4,210,520	312,819	304,620	56,695	4,275,414
Total Accumulated Depreciation	<u>19,949,669</u>	<u>2,306,190</u>	<u>323,281</u>	<u>56,695</u>	<u>21,989,273</u>
Net Capital Assets Being Depreciated	<u>85,288,054</u>	<u>(1,712,780)</u>	<u>—</u>	<u>1,139,118</u>	<u>84,714,392</u>
Net Business-Type Activities					
Capital Assets	<u>\$ 88,072,924</u>	<u>\$ (483,417)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 87,589,507</u>

Notes to the Financial Statements

(6) Capital Assets

	Balance - Beginning of Year	Increases	Decreases	Transfers	Balance - End of Year
Discretely Presented Waterloo Water Works Component Unit Capital Assets					
Capital Assets Not Being Depreciated					
Land.....	\$ 164,152	\$ —	\$ —	\$ —	\$ 164,152
Assets not in service.....	342,736	67,722	—	—	410,458
Construction in progress	—	301,188	—	—	301,188
Total Capital Assets Not Being Depreciated	<u>506,888</u>	<u>368,910</u>	<u>—</u>	<u>—</u>	<u>875,798</u>
Capital Assets Being Depreciated					
Buildings and improvements	1,706,706	1,955	—	—	1,708,661
Water supply and distribution systems.....	17,873,575	333,129	—	—	18,206,704
Meters and equipment.....	1,482,681	—	—	—	1,482,681
Machinery and equipment	1,694,087	58,876	25,286	—	1,727,677
Total Capital Assets Being Depreciated	<u>22,757,049</u>	<u>393,960</u>	<u>25,286</u>	<u>—</u>	<u>23,125,723</u>
Total Accumulated Depreciation	<u>5,930,324</u>	<u>436,200</u>	<u>25,286</u>	<u>—</u>	<u>6,341,238</u>
Net Capital Assets Being Depreciated.....	<u>16,826,725</u>	<u>(42,240)</u>	<u>—</u>	<u>—</u>	<u>16,784,485</u>
Net Discretely Presented Waterloo Water Works Component Unit Capital Assets.....	<u>\$ 17,333,613</u>	<u>\$ 326,670</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 17,660,283</u>

Depreciation expense was charged by the City as follows for the year ended June 30, 2006:

Governmental Activities

Public safety	\$ 586,706
Public works	2,737,421
Health and social services.....	1,387
Culture and recreation	716,935
Community and economic development	223,598
General government.....	74,446
Total Governmental Activities	<u>4,340,493</u>

Business-Type Activities

Sanitary sewer.....	2,071,306
Sanitation.....	234,884
Total Business-Type Activities	<u>2,306,190</u>

Total Primary Government **\$ 6,646,683**

Component Unit - Waterloo Water Works **\$ 436,200**

Component Unit - Waterloo Convention & Visitors Bureau, Inc..... **\$ 6,520**

(7) Deferred Compensation Plans

Deferred Frozen Sick Leave Payout

Retirees have the option of receiving their frozen sick leave (Note 8) payout immediately or receiving it as an annuity over 60 months. If the annuity option is selected, interest is paid to the retiree at the same rate as the City pays on the general obligation bonds last issued before the retirement date. At June 30, 2006, 32 retirees were receiving annuitized payouts, the present value of which was \$293,558.

During 2001, the City began offering an early sick leave payout option. Qualifying employees can elect to receive 60% of the time in their frozen sick leave bank over a five-year period prior to their retirement or termination of employment. At June 30, 2006, ten employees were receiving payments, the remaining balance of which was \$70,803.

Fire Retirement Plan Under Code of Iowa Chapter 410

The City provides pension benefits under Chapter 410 of the Code of Iowa for certain of its retired firefighters and beneficiaries through a defined benefit plan. The City acts as the administrator of the plan as prescribed by State statute. At June 30, 2006, the plan had one member. At June 30, 2006, the discounted present value of deferred compensation under this plan was \$22,301.

Deferred compensation is reported in enterprise funds as accrued liabilities and governmental funds as long-term debt.

(8) Compensated Absences

City employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination or retirement. A calendar year is primarily used for the calculation of vacation pay benefits while sick leave utilizes the City's fiscal year. Vacation days for most bargaining unit employees must be taken or paid during the calendar year with limited exceptions. Nonbargaining unit employees may carry forward up to ten days vacation with proper approval. Upon termination, employees receive payment for unused vacation plus a payment for vacation hours accrued from January through the termination date. As of June 30, 2006, there was \$1,210,922 accrued for vacation.

Prior to July 1, 1984, sick leave was allowed to accumulate to a maximum of 240 days, except for police and fire personnel who could accumulate a maximum of 260 days. Any unused days at July 1, 1984 were accumulated into a frozen sick leave bank. The days frozen in the bank are paid upon use, termination or retirement (except for library employees who will only be paid upon use). If paid upon retirement, 60% of the total accumulated hours are paid to employees. Retirees have the option of receiving the payout immediately or receiving it as an annuity over 60 months. As discussed in Note 7, active employees could elect to receive a payout of 60% of their frozen sick dollars beginning in July, 2001. As of June 30, 2006, there was \$686,683 accrued for the frozen sick leave bank.

After July 1, 1984, sick leave is allowed to accumulate up to 12 days per year. At the end of the year, 25% of the unused days are payable to the employee as a bonus and 75% of the days are placed in the sick leave bank for future use. The days accumulated in the bank after July 1, 1984 are not payable upon termination or retirement. At June 30, 2006, \$80,847, equivalent to 25% of unused sick leave subject to payout has been accrued.

Notes to the Financial Statements

(8) Compensated Absences

Certain employees can elect either to be paid overtime compensation or to accrue the hours as compensatory time, defined as additional time off from regular hours. Employees are required to be paid for these services upon termination of employment. Maximum hours eligible to be used later as compensatory time are limited by law and labor contracts. Governmental funds do not recognize these accumulations as expenditures until paid. At June 30, 2006, there was \$834,032 accrued for unused compensatory time.

Vacation pay, the sick leave bonus and accrued casual pay are reported as compensated absences in the applicable fund which includes \$909,386 in governmental funds. Frozen sick leave and compensatory time liabilities are reported in accrued liabilities in enterprise funds and as long-term debt for governmental activities.

(9) Long-Term Debt

The following is a summary of the changes in long-term debt for the year ended June 30, 2006:

	Balance - Beginning of Year	Additions	Retirements	Balance - End of Year	Due Within One Year
Governmental Activities					
General obligation bonds and notes	\$ 59,295,000	\$ 9,100,000	\$ 6,135,000	\$ 62,260,000	\$ 6,800,000
Loans and notes.....	3,198,850	158,074	259,599	3,097,325	394,125
Capital lease obligations.....	157,024	—	157,024	—	—
Deferred compensation.....	489,306	112,037	212,881	388,462	157,625
Compensated absences.....	1,610,527	1,209,702	213,156	2,607,073	See Note 8
Total Governmental Activities.....	<u>\$ 64,750,707</u>	<u>\$ 10,579,813</u>	<u>\$ 6,977,660</u>	<u>\$ 68,352,860</u>	<u>\$ 7,351,750</u>
Business-Type Activities					
General obligation bonds.....	\$ 14,025,000	\$ 1,000,000	\$ 635,000	\$ 14,390,000	\$ 670,000
Revenue bonds.....	18,520,000	—	2,325,000	16,195,000	2,345,000
Subtotal.....	32,545,000	1,000,000	2,960,000	30,585,000	3,015,000
Less unamortized discounts and reacquisition costs.....	877,360	—	152,571	724,789	—
Total Business-Type Activities.....	<u>\$ 31,667,640</u>	<u>\$ 1,000,000</u>	<u>\$ 2,807,429</u>	<u>\$ 29,860,211</u>	<u>\$ 3,015,000</u>

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

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

Notes to the Financial Statements

(9) Long-Term Debt

During the year ended June 30, 2006, the City issued tax-exempt General Obligation Bonds, Series 2006A in the amount of \$8,200,000, maturing June 1, 2007-2021, with coupon rates of 3.8% - 4% (based on length to maturity) less a discount of \$37,282. Of the total, \$1,000,000 is to be used to finance sanitary sewer improvements, is to be repaid with user fees and is reported in the Sanitary Sewer Enterprise Fund. The remainder of \$7,200,000 is to be used to finance various projects throughout the City and is reported in the June, 2006 GO Bond Capital Projects Fund.

The City also issued \$1,900,000 of taxable General Obligation Bonds, Series 2006B for urban renewal projects including the acquisition and redevelopment of private property. These bonds mature June 1, 2009 through 2021 and have coupon rates of 5.625% - 5.85%. The face amount of these bonds is reported in the June, 2006 GO Bond Capital Projects Fund.

The City's outstanding general obligation long-term debt is as follows:

Issue Date	Purpose	Interest Rates	Corporate Purposes	Refunding	Sanitary Sewer	Total
April, 1998	Airport hanger	5.400% - 5.75%	\$ 485,000	\$ —	\$ —	\$ 485,000
June, 1998	Corporate purpose	4.400 - 4.50	3,310,000	—	—	3,310,000
March, 1999	Refunding	4.125 - 4.20	—	6,445,000	—	6,445,000
June, 1999	Various	4.700 - 5.25	4,630,000	—	3,940,000	8,570,000
June, 2000	Various	5.375 - 5.50	720,000	—	3,165,000	3,885,000
June, 2001	Various	4.250 - 4.60	5,605,000	1,145,000	2,525,000	9,275,000
June, 2002	Various	3.200 - 4.65	5,410,000	—	830,000	6,240,000
June, 2002	Taxable	4.700 - 6.00	1,185,000	—	—	1,185,000
June, 2003	Various	2.000 - 3.00	3,940,000	685,000	955,000	5,580,000
June, 2003	Taxable	3.750 - 4.90	870,000	—	—	870,000
June, 2004	Various	3.000 - 4.75	5,315,000	1,855,000	985,000	8,155,000
June, 2004	Taxable	3.500 - 5.90	3,540,000	—	—	3,540,000
June, 2005	Various	3.000 - 4.00	3,840,000	2,365,000	990,000	7,195,000
June, 2005	Taxable	4.000 - 5.00	1,815,000	—	—	1,815,000
June, 2006	Various	3.800 - 4.00	7,200,000	—	1,000,000	8,200,000
June, 2006	Taxable	5.625 - 5.85	1,900,000	—	—	1,900,000
Total			<u>\$49,765,000</u>	<u>\$12,495,000</u>	<u>\$14,390,000</u>	<u>\$76,650,000</u>

Annual debt service on general obligation and revenue bonds at June 30, 2006 are as follows:

GO Debt Service Fund

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2007.....	\$ 6,800,000	\$ 2,601,938
2008.....	5,705,000	2,370,356
2009.....	5,820,000	2,155,638
2010.....	5,535,000	1,926,148
2011.....	5,320,000	1,700,016
2012 - 2016	23,290,000	5,216,235
2017 - 2021	9,790,000	1,046,995
	<u>\$ 62,260,000</u>	<u>\$ 17,017,326</u>

Notes to the Financial Statements

(9) Long-Term Debt

Sanitary Sewer Enterprise Fund

Year Ending June 30,	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2007.....	\$ 670,000	\$ 659,703	\$ 2,345,000	\$ 675,198
2008.....	970,000	630,018	1,495,000	604,173
2009.....	1,085,000	586,745	1,485,000	553,173
2010.....	1,125,000	538,445	1,585,000	494,198
2011.....	1,240,000	487,030	1,630,000	429,323
2012 - 2016	6,665,000	1,517,019	7,325,000	1,042,290
2017 - 2021	2,635,000	265,863	330,000	13,860
	<u>\$ 14,390,000</u>	<u>\$ 4,684,823</u>	<u>\$ 16,195,000</u>	<u>\$ 3,812,215</u>

Sanitary Sewer Fund interest expense of \$1,527,421 for the year ended June 30, 2006 includes \$1,374,850 on bonds plus \$8,963 for discount amortization and \$143,608 for reacquisition amortization.

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

1. The bonds will only be redeemed from the future earnings of the sewer system and the bondholders hold a lien on the future earnings.
2. Sufficient monthly transfers shall be made to the sewer revenue bond and interest sinking account for the purpose of making the bond principal and interest payments when due.
3. Monthly transfers will be made to establish a sewer revenue debt reserve fund. (The minimum required is currently \$2,123,500). The amounts shall be used solely for the purpose of paying principal or interest on the bonds when insufficient money is available in the sinking fund. Whenever it shall become necessary to use the funds in the debt reserve fund, monthly payments shall be established to restore the funds used within a three-year period.
4. Monthly transfers of \$20,000 shall be made to the sewer improvement fund until the fund equals or exceeds \$450,000. Amounts in the improvement fund not otherwise specially limited by provisions of the bond resolution shall first be used for the purpose of paying principal or interest on the bonds when there shall be insufficient money in the sinking fund and the reserve fund, to pay the cost of extraordinary maintenance or repairs, renewals and replacements not included in the annual budget of revenue and current expenses, payment of rentals on any part of the system or payments due for any property purchased as a part of the system and for capital improvements to the system. Whenever it becomes necessary to so use the improvement fund, the monthly payments required shall be continued or resumed until the fund is restored to the required minimum balance.
5. The City will cause to be kept proper books and accounts adapted to the system and in accordance with generally accepted accounting practices, and will cause the books and accounts to be audited annually not later than 270 days after the end of each fiscal year by an independent auditor.

Notes to the Financial Statements

(9) Long-Term Debt

6. The City will faithfully and punctually perform all duties with reference to the Sewer Enterprise required by the Constitution and laws of the State of Iowa.
7. The City will establish rates to allow net revenue to meet or exceed 125% of debt service requirements for the year. For the year ended June 30, 2006, sewer net revenue was 186% of sewer revenue bond debt service.

For the year ended June 30, 2006, the City complied with bond covenants.

Loans and Notes

For the year ended June 30, 2006, additions to loans and notes of \$158,074 were in the form of forgivable loans from the Iowa Department of Economic Development and are reported as intergovernmental revenue.

The City, through its blended component unit, Waterloo Housing Authority, is indebted to the Federal Financing Bank (FFB) for \$617,849 from the purchase of the Ridgeway Towers housing complex. The debt is scheduled to mature November 1, 2015. The United States Department of Housing and Urban Development pays interest and principal of \$86,364, annually, directly to FFB. The City reports the payment transaction in the GO Debt Service Fund.

During November, 1996, to obtain funding for promoting Midport America, the City's airport area tax increment financing district, the City borrowed \$100,000 from Basic Materials Corp. Interest, at 3%, is due on the loan each June 1. Principal is to be repaid as land in the district is marketed; however, the City intends to repay the loan at \$10,000 per year until repaid. During the year ended June 30, 2006, the City paid principal of \$10,000 plus interest of \$2,100 on the loan. Payments are made from the TIF Debt Service Fund. At June 30, 2006, the unpaid principal was \$60,000.

On March 22, 1999, the City entered into a real estate purchase agreement with Hurst Holding Company for land known as the Tower Technology Park. The purchase price of \$548,856 is to be paid in annual installments of \$78,408, beginning April 1, 2002 through April 1, 2008 when the remaining balance is due. Included in the payment is variable interest at the prime rate minus 0.25% adjusted each April 1 (5.5% at April 1, 2006). During the year ended June 30, 2006, the City paid principal of \$65,838 and interest of \$12,570 from the TIF Debt Service Fund. At June 30, 2006, the balance of \$162,712 is outstanding.

The City has drawn a \$345,875 loan from the Iowa Department of Economic Development, Brownfield Redevelopment Program, for the purchase of real estate in the Rath Redevelopment Area. The loan is at zero percent interest with no payments due in the first five years after development. Depending on the percentage increase in taxable property valuation for the redevelopment area, from 100% to 0% of the loan will be forgiven. The unforgiven portion will be due in ten equal semi-annual payments. The City has scheduled repayment for July, 2011 from the TIF Debt Service Fund.

On May 18, 2004, the City purchased land for development from Brock, Inc. for \$385,000 under a real estate contract requiring annual payments of \$40,000 including interest at 3% beginning June 1, 2005 and continuing through June 1, 2009 when the unpaid balance is due. A payment of \$30,998, principal, plus interest of \$9,002 was made during the year ended June 30, 2006 from the TIF Debt Service Fund. At June 30, 2006, a balance of \$269,072 was outstanding.

Notes to the Financial Statements

(9) Long-Term Debt

During the year ended June 30, 2005, the City acquired property from WDC Properties I, Inc. in exchange for a \$240,000 note payable with interest at 4.5% to be paid August 1, 2005 and 2006 with a final payment of principal plus interest due by November 1, 2006.

During the year ended June 30, 2005, the City acquired property from the Waterloo Industrial Development Association (WIDA) in exchange for a note payable of \$350,000 which is due, plus interest at 4% compounded annually, on or before June 1, 2008. A payment of \$104,433 plus a credit of \$5,567 from WIDA was applied to the loan, leaving a balance of \$240,000 at June 30, 2006.

The City has drawn down \$198,544 of a potential \$200,000 forgivable loan from the Iowa Department of Economic Development Brownfield Redevelopment Program (Department). The loan is at zero percent with no payments due in years one through five. The loan may be forgiven if planned increases in taxable valuation of property within the redevelopment area have not been attained. Repayment of the unforgiven loan is to be repaid in ten equal semi-annual payments as determined by the Department.

The City has entered into development agreements including rebates of property taxes paid by other parties to the agreements. Most agreements include a set percentage of taxes paid for a specified number of years. Since payment years and amounts are unknown, they are not included in the schedule of maturities of debt. The following agreements require a guaranteed amount of principal plus interest to be paid to the developer.

Hy-Vee, Inc., \$522,545 plus interest at 3%. All accrued interest is due September 30, 2007. Semi-annual payments of \$50,000 are due beginning May 1, 2008 until principal plus interest has been paid.

Wilbert Burial Vault Co., \$150,000 plus interest at 5%, compounded annually. The City is to pay all accrued interest by September 30, 2007 after which 90% of eligible property taxes will be rebated until interest and principal have been paid.

Lockard Development, Inc., \$290,728 plus interest at 3%, through September 30, 2008 then at 5%, compounded annually. Accrued interest is due on or before September 30, 2008. Beginning November 1, 2008, semi-annual property tax rebates of 100% will be applied to interest and principal until the debt is retired.

Other Loans and Notes

Other governmental activity loans and notes mature as follows:

Year Ending June 30,	GO Debt Service Fund		TIF Debt Service Fund	
	Principal	Interest	Principal	Interest
2007.....	\$ 45,586	\$ 40,778	\$ 348,539	\$ 43,050
2008.....	48,595	37,769	467,793	119,676
2009.....	51,707	34,657	449,482	68,149
2010.....	55,215	31,149	246,969	29,833
2011.....	58,859	27,505	254,881	21,621
2012 - 2016	357,887	73,933	637,516	18,364
2017 - 2018	—	—	74,296	—
	<u>\$ 617,849</u>	<u>\$ 245,791</u>	<u>\$ 2,479,476</u>	<u>\$ 300,693</u>

Notes to the Financial Statements

(10) Operating Leases

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

The following is a schedule by years of future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at June 30, 2006:

Year Ending June 30,	
2007.....	\$ 54,000
2008.....	54,000
2009.....	54,000
Total.....	<u>\$ 162,000</u>

Rental expense for all material operating leases was \$54,000 for the year ended June 30, 2006.

(11) Retirement Systems

Police and Fire Retirement Plan

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

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

Plan members are required to contribute 9.35% of their earnable compensation and the City's contribution rate may not be less than 17% of annual earnable compensation. For the year ended June 30, 2006, the City's rate was 28.21%. Contribution requirements are established by state statute and may be amended by the State of Iowa legislature with the consent of the governor. The City's contributions to MFPRSI for the years ended June 30, 2006, 2005 and 2004 were \$3,290,718, \$2,881,037 and \$2,199,954 respectively, which met the required contributions for each year.

Other City Employees' Retirement Plan

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

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute and may be amended by the State of Iowa legislature with the consent of the governor. The City's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$722,024, \$688,993 and \$661,927, respectively, which met the required contributions for each year.

Notes to the Financial Statements

(11) Retirement Systems

Component Unit

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

Funding Policy

The contribution requirements of Plan members and the Utility are established and may be amended by the Utility. Plan member contributions are not currently required. The Utility is required to contribute amounts necessary to provide benefits based on the actuarial valuation. Amounts contributed to the plan during 2005, 2004 and 2003 were \$110,000, \$50,000 and \$150,000, respectively.

Annual Pension Cost and Net Pension Obligation

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

Three-Year Trend Information

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2003.....	\$ 107,163	140%	\$ 104,380
December 31, 2004.....	72,011	69	126,391
December 31, 2005.....	74,155	148	90,546

(12) Deficit Fund Balances

Funds with deficit balances at June 30, 2006 were as follows:

Nonmajor Governmental	
Special Revenue	
Grants.....	\$ 307,488
Federal Aviation Agency Projects.....	824,804
Capital Projects	
Capital Improvements	83,461

(13) Commitments

Construction

The City is involved in construction of capital assets, mainly streets, Brownfields reconstruction and the Waterloo Center for the Arts' Youth Pavilion. Much of the construction is partially funded through federal, state and local grants and donations. City participation in the programs is generally funded through proceeds of debt issues and local option taxes. At June 30, 2006, the City was committed to approximately \$13.8 million of construction contracts.

Property Tax Rebates

The City has entered into several development agreements with various businesses located in City tax increment financing districts. The agreements offer rebates of portions of taxes paid for up to ten years, depending on each individual agreement. The amount of the rebates are a percentage of the actual taxes paid by the business. Rebates are reported at the time property taxes are received. See Note 9.

Loan Guarantee

The City has guaranteed a bank loan of Cedar Skyline Corporation d/b/a Main Street Waterloo. In the event the primary debtor is unable to repay the loan, the City would be required to make the payments. At June 30, 2006, the note balance was \$257,600.

Retired Employees Health Care

Employees hired before 1990 who retire with 28 or more years of service but who have not reached age 65 are eligible for City-paid health care coverage. During the year ended June 30, 2006, the City incurred approximately \$1,030,000 for retirees' health care coverage and received approximately \$102,000 from former employees under COBRA and co-pay provisions. The City records the costs on the "pay as you go" method. Programs/functions are charged for employees who retired from the program/function.

(14) Joint Ventures and Jointly Governed Organizations

The City is a participating member of several organizations including the Black Hawk County Criminal Justice Information System (CJIS), the Consolidated Dispatch Center (Center), the Black Hawk County Solid Waste Management Commission (SWMC) and the Metropolitan Transit Authority (MET). In addition, the City pays its share of costs for CJIS, including debt service, pays its share of costs of the Center, pays landfill fees to SWMC and levies and collects property taxes from Black Hawk County and remits them to MET (\$1,079,214 during the year ended June 30, 2006). During the year ended June 30, 2006, the City received a distribution of \$1,073,828 from SWMC. Cumulative unexpended SWMC distributions are reported in the General Fund as designated for Vision Iowa projects. Also, during the year ended June 30, 2006, the Sanitation Fund received \$274,988 from a prior year operating grant from SWMC. This grant was used to offset recycling costs.

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

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

Notes to the Financial Statements

(15) Industrial Development Revenue Bonds

The City has issued a total of \$137,809,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa. The amount outstanding at June 30, 2006 is not reported to the City by either the debtors or creditors. Therefore, outstanding balances are unknown. The bonds and related interest are payable solely from revenue of applicable projects. Bond principal and interest do not constitute liabilities of the City.

(16) Risk Management

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

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

Beginning July 1, 2006, the City assumed the risk for employee health care and workers' compensation for all employees, subject to individual and City maximum costs covered by "stop-loss" insurance provisions. The City will continue to account for these costs in its General Fund.

At June 30, 2006, the City has designated \$2,060,628 of its General Fund, fund balance for insurable risks retained.

(17) Contingencies

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

(18) Related Party

The City Attorney is affiliated with various entities within a group of entities collectively described as the VGM Group (Group). On May 23, 2005, the City entered into a development agreement with VGM Management, Ltd. and VGM Development Corp. who are also part of the Group. As part of the agreement, the City is committed to conveying excess real estate to the Group, providing an economic development grant of \$378,762 to the Group and rebating for five years 50% of applicable property taxes paid by the Group.

Required Supplementary Information

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

Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		Actual Amounts	Actual Over (Under) Final Budget
	Original	Final	Budgetary Basis (See Note B)	
Revenue and Other Financing Sources				
Receipts				
Property taxes	\$ 32,344,654	\$ 32,344,654	\$ 32,355,339	\$ 10,685
TIF revenue	2,170,000	2,184,800	2,317,396	132,596
Other taxes	10,653,815	11,880,174	12,857,826	977,652
Licenses and permits.....	1,182,082	1,182,082	1,216,829	34,747
Use of money and property	1,009,232	1,253,557	2,614,173	1,360,616
Intergovernmental.....	30,485,987	32,058,325	24,404,629	(7,653,696)
Charges for services.....	18,671,347	18,871,121	18,800,258	(70,863)
Special assessments.....	129,400	129,400	89,844	(39,556)
Miscellaneous.....	<u>1,607,819</u>	<u>6,253,566</u>	<u>6,662,597</u>	<u>409,031</u>
Total Receipts	<u>98,254,336</u>	<u>106,157,679</u>	<u>101,318,891</u>	<u>(4,838,788)</u>
Other Financing Sources				
Transfer from other funds.....	13,179,320	15,976,992	12,005,862	(3,971,130)
Debt proceeds	11,400,000	10,400,000	10,350,000	(50,000)
Sale of capital assets.....	<u>67,075</u>	<u>172,074</u>	<u>232,329</u>	<u>60,255</u>
Total Other Financing Sources ..	<u>24,646,395</u>	<u>26,549,066</u>	<u>22,588,191</u>	<u>(3,960,875)</u>
Total Receipts and Other Financing Sources	<u>122,900,731</u>	<u>132,706,745</u>	<u>123,907,082</u>	<u>(8,799,663)</u>
Disbursements and Other Financing Uses				
Governmental Activities				
Public safety	23,735,637	25,213,713	24,281,706	(932,007)
Public works	16,798,933	23,375,544	19,726,488	(3,649,056)
Health and social services	361,534	571,280	420,002	(151,278)
Culture and recreation.....	6,198,637	7,429,004	6,851,331	(577,673)
Community and economic development	12,750,654	13,214,782	10,421,994	(2,792,788)
General government	3,618,189	4,276,186	3,230,329	(1,045,857)
Debt service	15,015,261	11,320,346	10,845,824	(474,522)
Capital projects	<u>20,823,900</u>	<u>19,459,876</u>	<u>11,525,680</u>	<u>(7,934,196)</u>
Total Governmental Activities	99,302,745	104,860,731	87,303,354	(17,557,377)
Business-type activities	<u>14,506,829</u>	<u>14,799,408</u>	<u>12,373,387</u>	<u>(2,426,021)</u>
Total Disbursements	<u>113,809,574</u>	<u>119,660,139</u>	<u>99,676,741</u>	<u>(19,983,398)</u>
Other Financing Uses				
Transfers to other funds	<u>13,179,320</u>	<u>15,976,992</u>	<u>12,005,862</u>	<u>(3,971,130)</u>
Total Disbursements and Other Financing Uses.....	<u>126,988,894</u>	<u>135,637,131</u>	<u>111,682,603</u>	<u>(23,954,528)</u>
Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(4,088,163)	(2,930,386)	12,224,479	15,154,865
Beginning Fund Balance	<u>39,244,187</u>	<u>46,258,244</u>	<u>46,258,244</u>	<u>—</u>
Ending Fund Balance.....	<u>\$ 35,156,024</u>	<u>\$ 43,327,858</u>	<u>\$ 58,482,723</u>	<u>\$ 15,154,865</u>

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type and nonprogram. Although the budget document presents function disbursements by fund type, the legal level of control is at the aggregated function level, not at the fund or fund type level. During the year, one budget amendment was adopted which increased budgeted disbursements by approximately \$5,851,000. The budget amendments are reflected in the final budgeted amounts.

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

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

Year Ended June 30, 2006

	GAAP Basis			Property Tax Collected for and Other GAAP		Budgetary Basis
	Governmental Funds	Enterprise Funds	Total Funds	Remitted to MET	Conversion Adjustments	
Revenue/Receipts						
Property taxes and TIF revenue.....	\$ 33,582,387	\$ —	\$ 33,582,387	\$ 1,079,214	\$ 11,134	\$ 34,672,735
Other taxes.....	12,907,521	—	12,907,521	—	(49,695)	12,857,826
Licenses and permits	1,216,278	—	1,216,278	—	551	1,216,829
Use of money and property	2,196,864	402,160	2,599,024	—	15,149	2,614,173
Intergovernmental	22,716,457	23,877	22,740,334	—	1,664,295	24,404,629
Charges for services	5,429,979	13,106,773	18,536,752	—	263,506	18,800,258
Interfund charges for services	2,801,492	—	2,801,492	—	(2,801,492)	—
Special assessments	52,698	—	52,698	—	37,146	89,844
Miscellaneous	3,253,989	294,787	3,548,776	—	3,113,821	6,662,597
Total Revenue/Receipts	84,157,665	13,827,597	97,985,262	1,079,214	2,254,415	101,318,891
Expenditures and Expenses/Disbursements						
Public safety	24,487,582	—	24,487,582	—	(205,876)	24,281,706
Public works	20,508,737	—	20,508,737	1,079,214	(1,861,463)	19,726,488
Health and social services ..	401,647	—	401,647	—	18,355	420,002
Culture and recreation	6,875,715	—	6,875,715	—	(24,384)	6,851,331
Community and economic development.....	11,177,833	—	11,177,833	—	(755,839)	10,421,994
General government	3,698,896	—	3,698,896	—	(468,567)	3,230,329
Debt service	9,179,432	1,527,421	10,706,853	—	138,971	10,845,824
Capital projects	9,570,650	—	9,570,650	—	1,955,030	11,525,680
Business-type activities.....	—	10,335,171	10,335,171	—	2,038,216	12,373,387
Total Expenditures and Expenses/Disburse- ments	85,900,492	11,862,592	97,763,084	1,079,214	834,443	99,676,741
Net	(1,742,827)	1,965,005	222,178	—	1,419,972	1,642,150
Other Financing Sources (Uses)						
Transfers in	10,433,905	—	10,433,905	—	1,571,957	12,005,862
Transfers out.....	(10,433,905)	—	(10,433,905)	—	(1,571,957)	(12,005,862)
Proceeds from sales of assets	232,328	—	232,328	—	1	232,329
Debt issued	9,100,000	—	9,100,000	—	1,250,000	10,350,000
Total Other Financing Sources (Uses)	9,332,328	—	9,332,328	—	1,250,001	10,582,329
Change in Fund Balance/ Net Assets						
Balance - Beginning of Year	36,050,969	69,703,813	105,754,782	—	(59,496,538)	46,258,244
Balance - End of Year	\$ 43,640,470	\$ 71,668,818	\$ 115,309,288	\$ —	\$ (56,826,565)	\$ 58,482,723

Other Supplementary Information

General Fund Description

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

Schedule of Revenue, Expenditures and Changes in Fund Balance -

General Fund

Year Ended June 30, 2006

Revenue

Property taxes	\$ 14,259,932
Other taxes and assessments	3,257,871
Licenses and permits.....	1,199,230
Investment income	390,638
Rent.....	636,597
Intergovernmental.....	1,826,819
Charges for services.....	5,015,496
Indirect allocations.....	2,116,492
Special assessments.....	52,698
Miscellaneous.....	<u>1,870,925</u>
Total Revenue	<u>\$ 30,626,698</u>

Expenditures

Public Safety Function

Mayor

Black Hawk Emergency Management Agency

Contractual services	\$ 46,371
Total Activity and Department.....	<u>46,371</u>

Police Department

Police Operations

Compensation and benefits	8,210,872
Contractual services	870,961
Commodities	<u>280,135</u>
Total Activity.....	<u>9,361,968</u>

Police Grants

Compensation and benefits	598,881
Contractual services	100,513
Commodities	140,156
Capital outlay	<u>331,970</u>
Total Activity.....	<u>1,171,520</u>

Local Law Enforcement Block Grant

Compensation and benefits	1,443
Contractual services	<u>153</u>
Total Activity.....	<u>1,596</u>

Law Enforcement Program

Commodities	<u>110,794</u>
Total Activity.....	<u>110,794</u>

Tobacco Grant

Compensation and benefits	<u>1,246</u>
Total Activity.....	<u>1,246</u>
Total Department	<u>10,647,124</u>

Schedule of Revenue, Expenditures and Changes in Fund Balance -

General Fund

Year Ended June 30, 2006

Expenditures

Public Safety Function

Fire Department

Fire Protection

Compensation and benefits	\$ 6,822,097
Contractual services	382,051
Commodities	136,314
Total Activity.....	<u>7,340,462</u>

Fire Restricted Programs

Contractual services	4,646
Commodities	5,624
Capital outlay	6,750
Total Activity.....	<u>17,020</u>

Fire Ambulance Services

Compensation and benefits	990,702
Contractual services	128,702
Commodities	125,209
Total Activity.....	<u>1,244,613</u>

Fire Safety Program

Compensation and benefits	172,496
Contractual services	36,874
Commodities	10,291
Total Activity.....	<u>219,661</u>

Fire Federal CDC Grant

Compensation and benefits	105,117
Contractual services	44,393
Commodities	2,414
Total Activity.....	<u>151,924</u>

Fire Federal ACT Grant

Commodities	75,600
Total Activity.....	<u>75,600</u>
Total Department	<u>9,049,280</u>

Traffic Operations Department

Animal Control

Contractual services	195,964
Commodities	380
Total Activity and Department.....	<u>196,344</u>

Building Inspection Department

Building and Housing Safety

Compensation and benefits.....	746,349
Contractual services	28,893
Commodities	37,644
Total Activity and Department.....	<u>812,886</u>

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

Year Ended June 30, 2006

Expenditures

Public Safety Function Totals

Current

Compensation and benefits.....	\$ 17,649,203
Contractual services	1,839,521
Commodities	<u>924,561</u>
Subtotal.....	20,413,285
Capital outlay.....	<u>338,720</u>

Total Public Safety Function \$ 20,752,005

Public Works Function

Mayor

Telecommunications

Contractual services	\$ <u>520</u>
Total Activity and Department.....	<u>520</u>

Clerk

Parking Administration

Compensation and benefits	47,398
Contractual services	60,834
Commodities	<u>717</u>
Total Activity and Department.....	<u>108,949</u>

City Engineer

Sidewalk Repair/Construction

Contractual services	712
Capital outlay	<u>52,409</u>
Total Activity and Department.....	<u>53,121</u>

Traffic Operations

Parking Maintenance

Compensation and benefits	153,315
Contractual services	41,984
Commodities	<u>18,742</u>
Total Activity and Department.....	<u>214,041</u>

Airport

Airport Administration

Compensation and benefits	343,568
Contractual services	294,634
Commodities	<u>99,659</u>
Total Activity and Department.....	<u>737,861</u>

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

Year Ended June 30, 2006

Expenditures

Public Works Function Totals

Current

Compensation and benefits.....	\$ 544,281
Contractual services.....	398,684
Commodities.....	<u>119,118</u>
Subtotal.....	1,062,083
Capital outlay.....	<u>52,409</u>

Total Public Works Function \$ 1,114,492

Health and Social Services Function

Mayor

Youth Initiative/Juvenile Justice Grant

Contractual services.....	\$ 52,981
Total Activity.....	<u>52,981</u>

Health and Sanitation

Contractual services.....	<u>75,000</u>
Total Activity.....	<u>75,000</u>
Total Department.....	<u>127,981</u>

Human Rights Department

Human Rights

Compensation and benefits.....	142,618
Contractual services.....	12,456
Commodities.....	<u>882</u>
Total Activity.....	<u>155,956</u>

Housing Enforcement

Compensation and benefits.....	68,297
Contractual services.....	47,195
Commodities.....	<u>742</u>
Total Activity.....	<u>116,234</u>

Cedar Valley Diversity Action Team

Contractual services.....	<u>1,476</u>
Total Activity.....	<u>1,476</u>
Total Department.....	<u>273,666</u>

Health and Social Services Function Totals

Current

Compensation and benefits.....	210,915
Contractual services.....	189,108
Commodities.....	<u>1,624</u>

Total Health and Social Services Function \$ 401,647

Schedule of Revenue, Expenditures and Changes in Fund Balance -

General Fund

Year Ended June 30, 2006

Expenditures

Culture and Recreation Function

Mayor

KBBG Communications

Contractual services	\$ 7,000
Total Activity.....	<u>7,000</u>

Fairview Cemetery Association

Contractual services	45,000
Total Activity.....	<u>45,000</u>
Total Department	<u>52,000</u>

Cultural/Arts

Junior Gallery

Contractual services	2,989
Commodities	554
Total Activity.....	<u>3,543</u>

Center for the Arts

Compensation and benefits	554,275
Contractual services	88,687
Commodities	38,872
Total Activity.....	<u>681,834</u>

Public Art

Contractual services	5,470
Total Activity.....	<u>5,470</u>

Culture and Arts Grants and Projects

Contractual services	35,616
Total Activity.....	<u>35,616</u>
Total Department	<u>726,463</u>

Library

Library Services

Compensation and benefits	806,625
Contractual services	231,589
Commodities	173,527
Total Activity.....	<u>1,211,741</u>

Enrich Iowa

Contractual services	17,544
Total Activity.....	<u>17,544</u>

Library Access Plus

Commodities	3,014
Total Activity.....	<u>3,014</u>

Library Grants

Contractual services	401
Commodities	16,378
Total Activity.....	<u>16,779</u>

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

Year Ended June 30, 2006

Expenditures

Culture and Recreation Function

Library

Library Gift and Trust	
Contractual services	\$ 27,252
Commodities	66,509
Capital outlay	<u>32,738</u>
Total Activity.....	<u>126,499</u>
Library Service Area	
Commodities	17,884
Total Activity.....	<u>17,884</u>
County Library System	
Contractual services	6,706
Commodities	<u>43,329</u>
Total Activity.....	<u>50,035</u>
Library Open Access	
Contractual services	3,000
Commodities	<u>6,352</u>
Total Activity.....	<u>9,352</u>
Total Department	<u>1,452,848</u>

Leisure Services

Leisure Services

Compensation and benefits	1,344,653
Contractual services	230,619
Commodities	<u>210,087</u>
Total Activity.....	<u>1,785,359</u>

Leisure Services Projects

Compensation and benefits	18,242
Contractual services	8
Commodities	75,983
Capital outlay	<u>6,071</u>
Total Activity.....	<u>100,304</u>

Golf Courses

Compensation and benefits	753,892
Contractual services	98,457
Commodities	<u>130,399</u>
Total Activity.....	<u>982,748</u>

Golf Course Improvements

Contractual services	3,832
Commodities	<u>20,156</u>
Total Activity.....	<u>23,988</u>

Sports and Youth Services

Compensation and benefits	355,911
Contractual services	43,993
Commodities	<u>105,953</u>
Total Activity.....	<u>505,857</u>

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

Year Ended June 30, 2006

Expenditures

Culture and Recreation Function

Leisure Services

Young Arena

Compensation and benefits	\$ 295,620
Contractual services	136,701
Commodities	<u>162,561</u>
Total Activity.....	<u>594,882</u>
Total Department	<u>3,993,138</u>

Culture and Recreation Function Totals

Current

Compensation and benefits.....	4,129,218
Contractual services	984,864
Commodities	<u>1,071,558</u>
Subtotal.....	6,185,640
Capital outlay.....	<u>38,809</u>

Total Culture and Recreation Function \$ 6,224,449

Community and Economic Development Function

Mayor

Iowa Northland Council of Governments

Contractual services	\$ <u>28,874</u>
Total Activity.....	<u>28,874</u>

Tourism Promotion

Contractual services	<u>134,225</u>
Total Activity.....	<u>134,225</u>

Waterloo Convention & Visitors Bureau, Inc.

Contractual services	<u>372,552</u>
Total Activity.....	<u>372,552</u>
Total Department	<u>535,651</u>

Planning and Zoning

Planning and Zoning

Compensation and benefits	405,661
Contractual services	10,011
Commodities	4,873
Capital outlay	<u>21,486</u>
Total Activity.....	<u>442,031</u>

Historic Preservation

Contractual services	<u>14,000</u>
Total Activity.....	<u>14,000</u>

City Property Management

Contractual services	<u>22,688</u>
Total Activity.....	<u>22,688</u>

Schedule of Revenue, Expenditures and Changes in Fund Balance -

General Fund

Year Ended June 30, 2006

Expenditures

Community and Economic Development Function

Planning and Zoning

Economic Development

Contractual services	\$ 1,750
Total Activity.....	<u>1,750</u>
Total Department	<u>480,469</u>

Central Garage

Central Garage

Compensation and benefits	504,054
Contractual services	17,292
Commodities	<u>81,463</u>
Total Activity.....	<u>602,809</u>

Central Garage - Motor Pool Service

Commodities	<u>58,987</u>
Total Activity.....	<u>58,987</u>
Total Department	<u>661,796</u>

Building Inspection

Code Enforcement

Compensation and benefits	160,731
Contractual services	6,809
Commodities	<u>3,539</u>
Total Activity.....	<u>171,079</u>

Five Sullivans Civic Center

Compensation and benefits	34,845
Contractual services	34,558
Commodities	<u>17,224</u>
Total Activity.....	<u>86,627</u>
Total Department	<u>257,706</u>

Community Development

Block Grant Administration

Compensation and benefits	<u>212</u>
Total Activity.....	<u>212</u>

Emergency Shelter Pass Through

Compensation and benefits	4,374
Contractual services	<u>120,256</u>
Total Activity.....	<u>124,630</u>

Economic Development

Contractual services	<u>20,000</u>
Total Activity.....	<u>20,000</u>
Total Department	<u>144,842</u>

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

Year Ended June 30, 2006

Expenditures

Community and Economic Development Function Totals

Current

Compensation and benefits.....	\$ 1,109,877
Contractual services.....	783,015
Commodities.....	<u>166,086</u>
Subtotal.....	2,058,978
Capital outlay.....	<u>21,486</u>

Total Community and Economic Development Function..... \$ 2,080,464

General Government Function

Mayor's Office

Compensation and benefits.....	\$ 127,293
Contractual services.....	5,317
Commodities.....	<u>426</u>
Total Activity.....	<u>133,036</u>

Mayor's Projects

Contractual services.....	<u>51,839</u>
Total Activity.....	<u>51,839</u>

Administrative and Management Information Services

Compensation and benefits.....	155,320
Contractual services.....	84,100
Commodities.....	<u>5,232</u>
Total Activity.....	<u>244,652</u>
Total Department.....	<u>429,527</u>

City Council

City Council

Compensation and benefits.....	48,685
Contractual services.....	<u>736</u>
Total Activity and Department.....	<u>49,421</u>

City Clerk and Finance

Telecommunications

Compensation and benefits.....	92,008
Contractual services.....	650
Commodities.....	1,731
Capital outlay.....	<u>26</u>
Total Activity.....	<u>94,415</u>

City Clerk and Finance

Compensation and benefits.....	558,699
Contractual services.....	250,698
Election costs.....	25,658
Commodities.....	<u>9,135</u>
Total Activity.....	<u>844,190</u>

Schedule of Revenue, Expenditures and Changes in Fund Balance -

General Fund

Year Ended June 30, 2006

Expenditures

General Government Function

City Clerk and Finance

Insurance

Compensation and benefits	\$ 423,501
Contractual services	<u>889,482</u>
Total Activity.....	<u>1,312,983</u>

Print Shop

Contractual services	<u>40,128</u>
Total Activity.....	<u>40,128</u>
Total Department	<u>2,291,716</u>

City Attorney

City Attorney

Compensation and benefits	117,524
Contractual services	126,794
Commodities	<u>8,812</u>
Total Activity and Department.....	<u>253,130</u>

Human Resources

Human Resources

Compensation and benefits	206,550
Contractual services	44,933
Commodities	<u>3,460</u>
Total Activity and Department.....	<u>254,943</u>

Building Inspection

Facilities Maintenance

Compensation and benefits	159,629
Contractual services	170,210
Commodities	<u>54,958</u>
Total Activity.....	<u>384,797</u>

Facilities Restricted Project

Contractual services	70
Commodities	<u>4,783</u>
Total Activity.....	<u>4,853</u>

Veteran's Memorial Hall

Contractual services	<u>8,306</u>
Total Activity.....	<u>8,306</u>
Total Department	<u>397,956</u>

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

Year Ended June 30, 2006

Expenditures

General Government Function Totals	
Current	
Compensation and benefits.....	\$ 1,889,209
Contractual services.....	1,698,921
Commodities	<u>88,537</u>
Subtotal.....	3,676,667
Capital outlay.....	<u>26</u>
Total General Government Function	<u>\$ 3,676,693</u>
Public Safety.....	\$ 20,752,005
Public Works.....	1,114,492
Health and Social Services.....	401,647
Culture and Recreation.....	6,224,449
Community and Economic Development	2,080,464
General Government.....	<u>3,676,693</u>
Total Expenditures	<u>\$ 34,249,750</u>
Revenue Under Expenditures	<u>\$ (3,623,052)</u>
Other Financing Sources (Uses)	
Transfers in.....	6,753,714
Transfers out	(1,062,543)
Proceeds from sale of assets	<u>231,828</u>
Total Other Financing Sources.....	<u>5,922,999</u>
Revenue and Other Financing Sources Over Expenditures and Other Financing Uses.....	<u>2,299,947</u>
Fund Balance - Beginning of Year.....	<u>10,407,412</u>
Fund Balance - End of Year.....	<u>\$ 12,707,359</u>

Combining Balance Sheet Schedule - Nonmajor Governmental Funds ▬▬▬

At June 30, 2006

	Special Revenue	TIF Debt Service	Capital Projects	Total
Assets				
Cash and cash equivalents	\$ 4,964,120	\$ 1,423,063	\$ 19,083,018	\$ 25,470,201
Investments	450,022	—	—	450,022
Receivables				
Property Taxes				
Delinquent.....	4,316	—	—	4,316
Succeeding year	469,554	3,250,000	—	3,719,554
Due from other funds.....	5,820	—	97,412	103,232
Due From Other Governments				
Federal.....	2,086,636	—	106,122	2,192,758
Iowa.....	505,812	—	1,409	507,221
Other	12,221	15,144	—	27,365
Inventories and prepaids	365,634	—	—	365,634
Restricted Assets				
Cash and cash equivalents	<u>372,291</u>	<u>—</u>	<u>—</u>	<u>372,291</u>
Total Assets	<u>\$ 9,236,426</u>	<u>\$ 4,688,207</u>	<u>\$ 19,287,961</u>	<u>\$ 33,212,594</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 1,320,477	\$ 49,742	\$ 757,074	\$ 2,127,293
Retainages payable.....	148,144	—	89,622	237,766
Accrued liabilities.....	171,401	—	—	171,401
Due to other funds.....	674,418	379,868	2,477,695	3,531,981
Deferred revenue.....	2,404,147	3,250,000	1,098	5,655,245
Compensated absences.....	192,469	—	—	192,469
Payable from restricted assets	<u>203,774</u>	<u>—</u>	<u>—</u>	<u>203,774</u>
Total Liabilities.....	<u>5,114,830</u>	<u>3,679,610</u>	<u>3,325,489</u>	<u>12,119,929</u>
Fund Balances				
Reserved for inventories and prepaids	84,788	—	—	84,788
Reserved for improvements	168,517	—	—	168,517
Unreserved				
Undesignated	<u>3,868,291</u>	<u>1,008,597</u>	<u>15,962,472</u>	<u>20,839,360</u>
Total Fund Balances.....	<u>4,121,596</u>	<u>1,008,597</u>	<u>15,962,472</u>	<u>21,092,665</u>
Total Liabilities and Fund Balances	<u>\$ 9,236,426</u>	<u>\$ 4,688,207</u>	<u>\$ 19,287,961</u>	<u>\$ 33,212,594</u>

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

Year Ended June 30, 2006

	Special Revenue	TIF Debt Service	Capital Projects	Total
Revenue				
Property taxes	\$ 451,458	\$ 2,314,142	\$ —	\$ 2,765,600
Other taxes	24,815	—	—	24,815
Licenses and permits.....	17,048	—	—	17,048
Investment income	95,261	86,965	306,457	488,683
Rent.....	145,064	5,567	2,250	152,881
Intergovernmental.....	19,310,698	—	1,486,999	20,797,697
Charges for services.....	286,825	—	—	286,825
Indirect allocations - PS.....	685,000	—	—	685,000
Miscellaneous.....	58,816	—	1,238,267	1,297,083
Total Revenue	<u>21,074,985</u>	<u>2,406,674</u>	<u>3,033,973</u>	<u>26,515,632</u>
Expenditures				
Current				
Public safety.....	466,538	—	—	466,538
Public works.....	11,742,167	—	—	11,742,167
Culture and recreation.....	651,266	—	—	651,266
Community and economic development	8,757,029	340,340	—	9,097,369
Debt Service				
Principal	—	216,836	—	216,836
Interest and fees	—	34,472	146,252	180,724
Capital projects.....	—	—	9,570,650	9,570,650
Total Expenditures	<u>21,617,000</u>	<u>591,648</u>	<u>9,716,902</u>	<u>31,925,550</u>
Revenue Over (Under) Expenditures	(542,015)	1,815,026	(6,682,929)	(5,409,918)
Other Financing Sources (Uses)				
Transfers in.....	—	—	1,925,804	1,925,804
Transfers out	(444,017)	(2,246,079)	(4,752)	(2,694,848)
Proceeds from sale of assets	500	—	—	500
Debt issued.....	—	—	9,100,000	9,100,000
Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses.....	(985,532)	(431,053)	4,338,123	2,921,538
Fund Balance - Beginning of Year	<u>5,107,128</u>	<u>1,439,650</u>	<u>11,624,349</u>	<u>18,171,127</u>
Fund Balance - End of Year	<u>\$ 4,121,596</u>	<u>\$ 1,008,597</u>	<u>\$ 15,962,472</u>	<u>\$ 21,092,665</u>

Special Revenue Funds - Descriptions ---

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

Major:

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

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

Nonmajor:

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

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

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

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

Grants Fund - This fund is used to account for resources received for various federal and Iowa funded projects which are not accounted for elsewhere.

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

Combining Balance Sheet Schedule - Nonmajor Special Revenue Funds

At June 30, 2006

	Library Tax Levy	Community Develop- ment Block Grant	Road Use Tax	Housing Programs	Grants	Federal Aviation Agency Projects	Total
Assets							
Cash and cash equivalents	\$ 182,371	\$ 600	\$ 2,610,496	\$ 2,170,653	\$ —	\$ —	\$ 4,964,120
Investments	—	—	—	450,022	—	—	450,022
Receivables							
Property Taxes							
Delinquent	4,316	—	—	—	—	—	4,316
Succeeding year	469,554	—	—	—	—	—	469,554
Due from other funds	—	—	—	—	5,820	—	5,820
Due from Other Governments							
Federal	—	616,792	—	68,270	61,833	1,339,741	2,086,636
Iowa	—	—	—	—	505,812	—	505,812
Other	6,194	—	—	—	6,027	—	12,221
Inventories and prepaids	—	—	84,788	280,846	—	—	365,634
Restricted cash and cash equivalents	—	—	—	150,876	—	221,415	372,291
Total Assets	\$ 662,435	\$ 617,392	\$ 2,695,284	\$ 3,120,667	\$ 579,492	\$ 1,561,156	\$ 9,236,426
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ —	\$ 131,001	\$ 63,645	\$ 56,960	\$ 185,723	\$ 883,148	\$ 1,320,477
Retainages payable	—	—	—	4,082	27,881	116,181	148,144
Accrued liabilities	20,726	22,470	114,386	13,703	116	—	171,401
Due to other funds	—	98,329	—	86,451	215,939	273,699	674,418
Deferred revenue	473,870	344,652	—	68,270	457,321	1,060,034	2,404,147
Compensated absences	15,134	20,940	142,321	14,074	—	—	192,469
Payable from restricted assets	—	—	—	150,876	—	52,898	203,774
Total Liabilities	509,730	617,392	320,352	394,416	886,980	2,385,960	5,114,830
Fund Balances							
Reserved for inventories and prepaids	—	—	84,788	—	—	—	84,788
Reserved for improvements	—	—	—	—	—	168,517	168,517
Unreserved - undesignated	152,705	—	2,290,144	2,726,251	(307,488)	(993,321)	3,868,291
Total Fund Balances	152,705	—	2,374,932	2,726,251	(307,488)	(824,804)	4,121,596
Total Liabilities and Fund Balances	\$ 662,435	\$ 617,392	\$ 2,695,284	\$ 3,120,667	\$ 579,492	\$ 1,561,156	\$ 9,236,426

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

Year Ended June 30, 2006

	Library Tax Levy	Community Development Block Grant	Road Use Tax	Housing Programs	Grants	Federal Aviation Agency Projects	Total
Revenue							
Property taxes.....	\$ 451,458	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 451,458
Other taxes.....	24,815	—	—	—	—	—	24,815
Licenses and permits.....	—	—	17,048	—	—	—	17,048
Investment income.....	7,455	—	—	86,653	—	1,153	95,261
Rent.....	—	—	—	145,064	—	—	145,064
Intergovernmental.....	—	3,535,256	5,755,874	5,097,958	2,340,172	2,581,438	19,310,698
Charges for services.....	—	72,609	51,944	29,001	—	133,271	286,825
Interfund charges for service.....	—	—	685,000	—	—	—	685,000
Miscellaneous.....	—	23,287	22,580	9,129	3,820	—	58,816
Total Revenue.....	483,728	3,631,152	6,532,446	5,367,805	2,343,992	2,715,862	21,074,985
Expenditures							
Current							
Public safety.....	—	—	—	—	293,629	172,909	466,538
Public works.....	—	—	6,264,057	—	2,061,191	3,416,919	11,742,167
Culture and recreation.....	651,266	—	—	—	—	—	651,266
Community and economic development.....	—	3,631,152	14	5,052,007	73,856	—	8,757,029
Total Expenditures.....	651,266	3,631,152	6,264,071	5,052,007	2,428,676	3,589,828	21,617,000
Revenue Over (Under) Expenditures.....	(167,538)	—	268,375	315,798	(84,684)	(873,966)	(542,015)
Other Financing Sources (Uses)							
Transfers out.....	—	—	—	(77,200)	—	(366,817)	(444,017)
Proceeds from sale of assets.....	—	—	—	—	500	—	500
Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses.....	(167,538)	—	268,375	238,598	(84,184)	(1,240,783)	(985,532)
Fund Balance - Beginning of Year.....	320,243	—	2,106,557	2,487,653	(223,304)	415,979	5,107,128
Fund Balance - End of Year.....	\$ 152,705	\$ —	\$ 2,374,932	\$ 2,726,251	\$ (307,488)	\$ (824,804)	\$ 4,121,596

Debt Service Fund Description

Major:

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

Nonmajor:

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

Capital Project Funds - Descriptions

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

Nonmajor:

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

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

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

June 2005 GO Bonds Fund - This fund is used to account for proceeds from the 2005 general obligation bond sale until expended for the proper purpose.

June 2006 GO Bonds Fund - This fund is used to account for proceeds from the 2006 general obligation bond sale until expended for the proper purpose.

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

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

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

Capital Improvements Funds - This fund is used to account for the use of resources on governmental capital projects not accounted for in other capital projects funds.

Combining Balance Sheet Schedule - Capital Projects Funds

At June 30, 2006

	June 2003 Go Bonds	June 2004 GO Bonds	June 2005 GO Bonds	June 2006 GO Bonds	Sixth Street Substitution	Rath Area Redevelopment	Vision Iowa Projects	Capital Improvements	Total
Assets									
Cash and cash equivalents	\$ 1,388,174	\$ 3,650,865	\$ 3,790,884	\$ 9,265,705	\$ 86,905	\$ 104,764	\$ 750,000	\$ 45,721	\$ 19,083,018
Due from other funds	—	—	—	21,934	—	—	60,669	14,809	97,412
Due From Other Governments									
Federal	—	—	—	—	—	106,122	—	—	106,122
Iowa	—	—	—	—	—	1,409	—	—	1,409
Total Assets	\$ 1,388,174	\$ 3,650,865	\$ 3,790,884	\$ 9,287,639	\$ 86,905	\$ 212,295	\$ 810,669	\$ 60,530	\$ 19,287,961
Liabilities and Fund Balances									
Liabilities									
Accounts payable	\$ 123,914	\$ 230,101	\$ 145,771	\$ 10,188	\$ —	\$ 99,802	\$ 40,221	\$ 107,077	\$ 757,074
Retainages payable	2,753	23,662	226	—	—	5,599	20,448	36,914	89,622
Due to other funds	—	536,370	915,299	1,026,026	—	—	—	—	2,477,695
Deferred revenue	—	—	—	—	—	1,098	—	—	1,098
Total Liabilities	126,667	790,153	1,061,296	1,036,214	—	106,499	60,669	143,991	3,325,489
Fund Balances									
Unreserved									
Undesignated	<u>1,261,507</u>	<u>2,860,712</u>	<u>2,729,588</u>	<u>8,251,425</u>	<u>86,905</u>	<u>105,796</u>	<u>750,000</u>	<u>(83,461)</u>	<u>15,962,472</u>
Total Liabilities and Fund Balances.	\$ 1,388,174	\$ 3,650,865	\$ 3,790,884	\$ 9,287,639	\$ 86,905	\$ 212,295	\$ 810,669	\$ 60,530	\$ 19,287,961

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

Year Ended June 30, 2006

	June 2002 GO Bonds	June 2003 GO Bonds	June 2004 GO Bonds	June 2005 GO Bonds	June 2006 GO Bonds	Sixth Street Substitution	Rath Area Redevelopment	Vision Iowa Projects	Capital Improvements	Total
Revenue										
Investment income.....	\$ 6,725	\$ 53,305	\$ 123,519	\$ 106,072	\$ 11,278	\$ 2,509	\$ 3,049	\$ —	\$ —	\$ 306,457
Rent.....	—	—	—	—	—	—	2,250	—	—	2,250
Intergovernmental.....	—	—	—	—	—	22,132	714,867	750,000	—	1,486,999
Miscellaneous.....	—	—	—	—	—	—	1,144	—	1,237,123	1,238,267
Total Revenue.....	6,725	53,305	123,519	106,072	11,278	24,641	721,310	750,000	1,237,123	3,033,973
Expenditures										
Bond discounts and issue costs.....	—	—	46,252	—	100,000	—	—	—	—	146,252
Capital outlay.....	252,746	1,017,990	1,870,422	1,704,651	759,853	7,100	1,078,317	998,099	1,881,472	9,570,650
Total Expenditures.....	252,746	1,017,990	1,916,674	1,704,651	859,853	7,100	1,078,317	998,099	1,881,472	9,716,902
Revenue Over (Under)										
Expenditures.....	(246,021)	(964,685)	(1,793,155)	(1,598,579)	(848,575)	17,541	(357,007)	(248,099)	(644,349)	(6,682,929)
Other Financing Sources (Uses)										
Transfers in.....	—	366,817	—	—	—	—	—	998,099	560,888	1,925,804
Transfers out.....	(4,752)	—	—	—	—	—	—	—	—	(4,752)
Debt issued.....	—	—	—	—	9,100,000	—	—	—	—	9,100,000
Revenue and Other Financing Sources Over (Under)										
Expenditures and Other Financing Uses.....	(250,773)	(597,868)	(1,793,155)	(1,598,579)	8,251,425	17,541	(357,007)	750,000	(83,461)	4,338,123
Fund Balance - Beginning of Year....	250,773	1,859,375	4,653,867	4,328,167	—	69,364	462,603	—	—	11,624,349
Fund Balance - End of Year.....	\$ —	\$ 1,261,507	\$ 2,860,712	\$ 2,729,588	\$ 8,251,425	\$ 86,905	\$ 105,796	\$ 750,000	\$ (83,461)	\$ 15,962,472

Enterprise Funds - Descriptions

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

Major:

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

Nonmajor:

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

Statistical Section

**City of Waterloo, Iowa
Statistical Section**

This part of the City of Waterloo's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

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Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The city implemented GASB Statement 34 in fiscal 2003; therefore, schedules presenting government-wide information include information beginning in that year.

**City of Waterloo, Iowa
Net Assets by Component
Last Four Fiscal Years
(accrual basis of accounting)**

	Fiscal Year			
	2003	2004	2005	2006
Governmental activities				
Invested in capital assets, net of related debt	\$ 40,960,660	\$ 46,671,542	\$ 56,719,559	\$ 69,770,404
Restricted	20,983,272	27,827,667	29,460,969	34,279,423
Unrestricted	3,132,625	4,725,340	6,160,850	6,043,616
Total governmental activities net assets	\$ 65,076,557	\$ 79,224,549	\$ 92,341,378	\$ 110,093,443
Business-type activities				
Invested in capital assets, net of related debt	55,430,659	55,900,582	56,679,067	57,945,809
Restricted	5,417,860	6,086,695	4,969,352	6,300,746
Unrestricted	4,882,349	5,624,562	8,055,394	7,422,263
Total business-type activities net assets	\$ 65,730,868	\$ 67,611,839	\$ 69,703,813	\$ 71,668,818
Primary government				
Invested in capital assets, net of related debt	96,391,319	102,572,124	113,398,626	127,716,213
Restricted	26,401,132	33,914,362	34,430,321	40,580,169
Unrestricted	8,014,974	10,349,902	14,216,244	13,465,879
Total primary government net assets	\$ 130,807,425	\$ 146,836,388	\$ 162,045,191	\$ 181,762,261

City of Waterloo, Iowa
Changes in Net Assets
Last Four Fiscal Years
(accrual basis of accounting)
(Page 1 of 2)

	Fiscal Year			
	2003	2004	2005	2006
Expenses				
Governmental activities:				
Public safety	\$ 19,924,337	\$ 20,214,741	\$ 22,484,306	\$ 25,251,052
Public works	8,856,045	14,829,494	13,689,867	11,579,825
Health and social services	432,228	439,033	251,534	331,759
Culture and recreation	6,856,469	6,121,952	6,425,956	6,786,963
Community and economic development	9,817,412	10,274,832	11,909,166	13,741,135
General government	2,889,784	2,935,962	2,783,145	3,415,216
Interest on long-term debt	2,757,830	2,410,195	2,540,869	2,625,800
Total governmental activities expenses	51,534,105	57,226,209	60,084,843	63,731,750
Business-type activities:				
Sanitary sewer	8,204,312	8,646,899	8,246,811	8,666,232
Sanitation	2,858,267	2,920,290	3,025,161	3,196,360
Total business-type activities expenses	11,062,579	11,567,189	11,271,972	11,862,592
Total primary government expenses	\$ 62,596,684	\$ 68,793,398	\$ 71,356,815	\$ 75,594,342
Program Revenue				
Governmental activities:				
Charges for services	5,841,769	5,011,504	5,573,164	6,369,507
Operating grants and contributions	14,395,839	16,531,573	15,780,383	18,358,119
Capital grants and contributions	2,707,872	4,548,472	3,970,432	6,241,861
Total governmental activities program revenue	22,945,480	26,091,549	25,323,979	30,969,487
Business-type activities:				
Charges for services:				
Sanitary sewer	9,178,611	9,585,766	9,496,202	9,905,507
Sanitation	2,863,391	3,072,299	3,210,265	3,201,266
Operating grants and contributions:				
Sanitary sewer	-	-	64,006	7,361
Sanitation	274,988	274,988	274,988	-
Capital grants and contributions - sanitary sewer	364,413	483,456	115,481	311,303
Total business-type activities program revenue	12,681,403	13,416,509	13,160,942	13,425,437
Total primary government program revenue	\$ 35,626,883	\$ 39,508,058	\$ 38,484,921	\$ 44,394,924
Net (Expense)/Revenue				
Governmental activities	(28,588,625)	(31,134,660)	(34,760,864)	(32,762,263)
Business-type activities	1,618,824	1,849,320	1,888,970	1,562,845
Total primary government net expense	(26,969,801)	(29,285,340)	(32,871,894)	(31,199,418)

City of Waterloo, Iowa
Changes in Net Assets
Last Four Fiscal Years
(accrual basis of accounting)
(Page 2 of 2)

	Fiscal Year			
	2003	2004	2005	2006
General Revenue and Other Changes in Net Assets				
Governmental activities:				
Taxes:				
Property taxes levied for general purposes	\$ 21,215,665	\$ 23,949,802	\$ 25,822,607	\$ 24,206,180
Property taxes levied for debt service	7,470,268	7,743,121	7,219,345	9,407,057
Other taxes	10,299,221	9,725,075	11,464,827	12,496,242
Investment earnings	587,676	661,458	668,736	1,276,389
Miscellaneous	4,456,570	3,073,954	2,847,102	3,128,460
Gain (loss) on sale of assets	234,169	116,629	(144,924)	-
Transfers	73,391	12,613	-	-
Total governmental activities	44,336,960	45,282,652	47,877,693	50,514,328
Business-type activities:				
Investment earnings	\$ 90,658	78,470	203,004	402,160
Gain (loss) on sale of assets	-	(34,206)	-	-
Transfers	(73,391)	(12,613)	-	-
Total business-type activities	17,267	31,651	203,004	402,160
Total primary government	\$ 44,354,227	\$ 45,314,303	\$ 48,080,697	\$ 50,916,488
Changes in Net Assets				
Governmental activities	15,748,335	14,147,992	13,116,829	17,752,065
Business-type activities	1,636,091	1,880,971	2,091,974	1,965,005
Total primary government	\$ 17,384,426	\$ 16,028,963	\$ 15,208,803	\$ 19,717,070

City of Waterloo, Iowa
Fund Balances - Governmental Funds
Last Four Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year			
	2003	2004	2005	2006
General Fund				
Reserved	\$ 1,984,128	\$ 2,106,686	\$ 2,048,163	\$ 1,841,389
Unreserved:				
Designated	1,373,828	2,166,703	4,073,524	5,186,521
Undesignated	<u>2,459,726</u>	<u>3,783,989</u>	<u>4,285,725</u>	<u>5,679,449</u>
Total general fund	<u><u>\$ 5,817,682</u></u>	<u><u>\$ 8,057,378</u></u>	<u><u>\$ 10,407,412</u></u>	<u><u>\$ 12,707,359</u></u>
All Other Governmental Funds				
Reserved	631,468	838,562	994,790	1,576,334
Undesignated, reported in:				
Special revenue funds	8,447,258	9,773,272	11,584,768	12,385,708
Debt service funds	407,914	615,679	1,439,650	1,008,597
Capital project funds	<u>7,448,883</u>	<u>11,434,780</u>	<u>11,624,349</u>	<u>15,962,472</u>
Total all other governmental funds	<u><u>\$ 16,935,523</u></u>	<u><u>\$ 22,662,293</u></u>	<u><u>\$ 25,643,557</u></u>	<u><u>\$ 30,933,111</u></u>

City of Waterloo, Iowa
Changes in Fund Balances - Governmental Funds
Last Four Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year			
	2003	2004	2005	2006
Revenue				
Property taxes	\$ 28,916,809	\$ 31,726,881	\$ 32,915,568	\$ 33,582,387
Other taxes	10,299,221	9,187,463	11,241,073	12,907,521
Licenses and permits	988,352	1,151,715	1,173,147	1,216,278
Investment income	587,676	661,458	668,736	1,276,389
Rent*	678,590	814,762	879,420	920,475
Intergovernmental	18,779,334	19,963,676	21,104,290	22,716,457
Charges for services*	5,236,433	5,048,840	4,980,587	5,429,979
Interfund charges for service	2,645,250	2,671,780	2,659,797	2,801,492
Special assessments	115,852	109,999	56,694	52,698
Miscellaneous	2,180,685	2,336,581	2,008,009	3,253,989
Total revenue	70,428,202	73,673,155	77,687,321	84,157,665
Expenditures				
Current:				
Public safety	19,393,834	20,081,214	22,140,431	24,487,582
Public works	18,719,419	17,121,845	18,582,433	20,508,737
Health and social services	510,114	517,555	325,147	401,647
Culture and recreation	5,987,808	6,506,123	6,576,723	6,875,715
Community and economic development	10,257,455	11,966,597	11,422,953	11,177,833
General government	3,310,503	3,501,031	3,261,058	3,698,896
Debt service				
Principal	6,625,485	6,471,606	6,399,291	6,551,624
Interest and fees	2,661,437	2,424,613	2,575,772	2,627,808
Capital projects	5,289,432	7,820,334	7,150,058	9,570,650
Total expenditures	72,755,487	76,410,918	78,433,866	85,900,492
Revenue over (under) expenditures	(2,327,285)	(2,737,763)	(746,545)	(1,742,827)
Other financing sources (uses)				
Transfers in	7,268,799	7,226,431	8,484,336	10,433,905
Transfers out	(7,195,408)	(7,213,818)	(8,484,336)	(10,433,905)
Proceeds from sale of assets	234,169	197,945	119,573	232,328
Capital lease obligations incurred	-	436,266	-	-
Refunding bonds issued	2,685,000	2,705,000	2,720,000	-
Payment to refunded bond escrow agent	(2,617,506)	(2,648,652)	(2,667,302)	-
Long-term bonds issued	6,010,000	10,150,000	6,000,000	9,100,000
Bond discounts and issue costs	(89,847)	(148,943)	(94,428)	-
Total other financing sources (uses)	6,295,207	10,704,229	6,077,843	9,332,328
Net change in fund balances	\$ 3,967,922	\$ 7,966,466	\$ 5,331,298	\$ 7,589,501
Debt service as a percentage of noncapital expenditures	13.8%	13.0%	12.6%	12.0%

* For the fiscal years ended June 30, 2003 and 2004, some rents were included in charges for services and miscellaneous revenue on the Statement of Activities. They have been reclassified to rent on this schedule.

**City of Waterloo, Iowa
Assessed and Taxable Value of Property
Last Ten Fiscal Years**

Assessment Date January 1,	For Fiscal Year Ended June 30,	Residential Property	Commercial Property	Industrial Property	TIF Property	Other Property	Less: Military Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Total Assessed Value	Total Taxable Value as a Percentage of Assessed Value
1995	1997	\$ 611,379,324	\$ 369,776,088	\$ 106,596,622	\$ 33,690,891	\$ 203,219,006	\$ 10,720,106	\$ 1,313,941,825	\$ 18.55368	\$ 1,743,910,769	75.34%
1996	1998	612,372,723	401,737,277	99,510,700	16,680,746	231,488,100	10,467,480	1,351,322,066	18.50011	1,779,885,135	75.92%
1997	1999	669,594,261	447,386,207	111,061,080	27,232,496	219,965,745	10,250,890	1,464,988,899	16.98070	2,027,751,515	72.25%
1998	2000	693,902,799	464,519,447	107,857,235	31,490,290	195,115,858	10,004,496	1,482,881,133	16.50196	2,017,843,361	73.49%
1999	2001	740,122,939	559,273,594	88,265,205	43,566,447	163,883,974	9,707,685	1,585,404,474	16.49097	2,106,995,793	75.24%
2000	2002	765,250,014	558,678,367	95,392,555	44,318,302	150,640,114	9,536,884	1,604,742,468	17.80075	2,104,182,394	76.26%
2001	2003	837,053,686	551,766,201	96,112,125	47,929,362	127,688,371	9,308,934	1,651,240,811	18.37162	2,354,407,942	70.13%
2002	2004	839,572,381	576,211,617	96,108,365	49,231,256	114,239,978	9,258,112	1,666,105,485	18.90914	2,366,125,563	70.41%
2003	2005	893,839,054	672,183,148	97,124,065	64,558,282	112,393,854	8,992,261	1,831,106,142	18.78999	2,789,882,310	65.63%
2004	2006	894,181,940	667,846,702	99,012,365	63,981,335	107,833,856	8,509,114	1,824,347,104	19.15566	2,805,711,189	65.02%

Source: Black Hawk County Auditor.

- Notes:
- (1) Does not include tax-exempt property. Tax rates are per \$1,000 of assessed value.
 - (2) Property tax on machinery and equipment was phased out during the period FYE2001 through FYE2003.

**City of Waterloo, Iowa
Property Tax Rates
Direct and Overlapping Governments
Last Ten Fiscal Years**

Fiscal Year	Overlapping Rates										
	City of Waterloo			Black Hawk County			Schools			Other	Total Direct & Overlapping Rates
	Operating Millage	Debt Service	Total City Millage	Operating Millage	Debt Service	Total County Millage	Operating Millage	Debt Service	Total School Millage		
1997	13.28511	5.26857	18.55368	7.89490	0.69790	8.59280	14.39303	0.63636	15.02939	1.17208	43.34795
1998	13.04302	5.45709	18.50011	7.55193	0.67633	8.22826	14.41126	1.00000	15.41126	1.29704	43.43667
1999	11.81999	5.16071	16.98070	6.79867	0.60754	7.40621	14.39941	1.00000	15.39941	1.24187	41.02819
2000	11.69338	4.80858	16.50196	6.90463	0.58975	7.49438	13.69924	1.00000	14.69924	1.11145	39.80703
2001	11.51238	4.97859	16.49097	6.78238	0.53875	7.32113	13.57901	1.00000	14.57901	1.08713	39.47824
2002	12.63743	5.16332	17.80075	7.20942	0.47949	7.68891	14.15557	1.00000	15.15557	1.13632	41.78155
2003	13.55586	4.81576	18.37162	7.01176	0.60721	7.61897	14.52456	1.00000	15.52456	1.17929	42.69444
2004	14.26784	4.64130	18.90914	7.15152	0.59469	7.74621	14.85083	1.00000	15.85083	1.13876	43.64494
2005	14.62934	4.16065	18.78999	6.90953	0.58284	7.49237	14.62496	1.00000	15.62496	1.36743	43.27475
2006	15.04360	4.11206	19.15566	7.04780	0.56052	7.60832	14.99110	1.00000	15.99110	1.42197	44.17705

Source: Black Hawk County Auditor.

**City of Waterloo, Iowa
Principal Taxpayers
Current Year and Nine Years Ago**

Employer	2006			1997		
	Assessed Value 1/1/2004	Rank	Percentage of Total Assessed Value	Assessed Value 1/1/1995	Rank	Percentage of Total Assessed Value
Mid American Energy	\$ 98,650,632	1	3.52%	97,740,399	2	5.60%
Coyote Crossroads Mall, LLC/ Equitable Life Assurance in 1997	33,564,460	2	1.20%	22,903,250	4	1.31%
Deere and Company	25,671,030	3	0.91%	158,378,920	1	9.08%
Tyson Fresh Meats (formerly IBP, Inc.)	19,840,220	4	0.71%	49,204,460	3	2.82%
Hunt Wesson, Inc.	16,317,760	5	0.58%	--	--	--
Bertch Cabinet Manufacturing	15,314,300	6	0.55%	11,816,970	5	0.68%
Qwest Corporation (formerly US West)	14,268,906	7	0.51%	11,322,756	6	0.65%
Individual Trust	10,272,770	8	0.37%	--	--	--
Banco Mortgage Company	10,237,740	9	0.36%	--	--	--
Wal-Mart Stores	10,180,090	10	0.36%	--	--	--
Waterloo Industries	--	--	--	9,396,530	7	0.54%
Omega Cabinets, Inc.	--	--	--	7,180,550	8	0.41%
Homeland Bank N.A.	--	--	--	6,986,290	9	0.40%
GMAC Mortgage	--	--	--	6,795,530	10	0.39%
Total	\$ 254,317,908		9.06%	\$ 381,725,655		21.89%

Source: Official Bond Statements from Speer Financial, Inc.

**City of Waterloo, Iowa
Property Tax Levies and Collections
Last Ten Fiscal Years**

<u>Assessment Date January 1,</u>	<u>Fiscal Year Ended June 30,</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percent of Current Tax Collections To Tax Levy</u>	<u>Delinquent Tax Collections</u>	<u>Total Tax Collections</u>	<u>Percent of Total Tax Collections To Tax Levy</u>
1995	1997	\$ 23,961,551	\$ 23,394,917	97.64%	\$ 318,499	\$ 23,713,416	98.96%
1996	1998	24,813,242	24,418,926	98.41%	273,242	24,692,168	99.51%
1997	1999	24,590,459	24,232,395	98.54%	381,011	24,613,406	100.09%
1998	2000	24,140,238	24,004,504	99.44%	403,035	24,407,539	101.11%
1999	2001	24,105,745	24,277,383	100.71%	281,374	24,558,757	101.88%
2000	2002	26,384,840	25,866,384	98.04%	451,479	26,317,863	99.75%
2001	2003	28,020,783	28,022,406	100.01%	118,932	28,141,338	100.43%
2002	2004	29,033,374	29,059,188	100.09%	17,377	29,076,565	100.15%
2003	2005	31,690,701	31,509,489	99.43%	12,616	31,522,105	99.47%
2004	2006	32,344,654	32,344,856	100.00%	10,483	32,355,339	100.03%

City of Waterloo, Iowa
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	Governmental Activities				Business-Type Activities			Total Primary Government	Percentage of Personal Income*	Per Capita*
	General Obligation Bonds	General Obligation Capital Loan Notes	Capital Leases	Other Debt	General Obligation Bonds	Revenue Bonds	Capital Leases			
1997	\$ 58,182,294	--	--	\$ 2,224,480	--	\$ 28,006,315	--	\$ 88,413,089	6.29%	\$ 1,330
1998	58,441,349	--	358,237	1,812,736	--	29,160,775	--	89,773,097	5.97%	1,351
1999	59,161,087	--	1,578,966	1,728,650	4,000,000	27,421,559	215,700	94,105,962	6.04%	1,416
2000	53,948,888	--	1,831,875	1,928,904	8,400,000	25,630,881	238,086	91,978,634	5.94%	1,384
2001	57,769,091	410,000	1,392,935	1,937,683	11,390,000	25,815,000	170,166	98,884,875	5.80%	1,438
2002	54,940,000	--	863,118	2,278,686	12,145,000	23,925,000	99,547	94,251,351	5.33%	1,371
2003	55,270,000	385,000	315,511	1,947,845	12,890,000	21,940,000	25,304	92,773,660	4.96%	1,349
2004	59,290,000	330,000	339,513	2,073,647	13,610,000	19,870,000	--	95,513,160	5.01%	1,389
2005	59,295,000	150,000	157,024	3,592,934	14,025,000	18,520,000	--	95,739,958	4.61%	1,393
2006	62,260,000	250,000	--	3,463,486	14,390,000	16,195,000	--	96,558,486	4.48%	1,405

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

* Personal income and population data can be found in the Schedule of Demographic and Economic Statistics. These ratios are calculated using personal income and population for the prior calendar year.

**City of Waterloo, Iowa
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Total Assessed Value of Property</u>	<u>Percentage of Assessed Value of Property</u>	<u>Per Capita*</u>
1997	\$ 58,182,294	\$ 1,743,910,769	3.34%	\$ 875
1998	58,441,349	1,779,885,135	3.28%	879
1999	63,161,087	2,027,751,515	3.11%	950
2000	62,348,888	2,017,843,361	3.09%	938
2001	69,569,091	2,106,995,793	3.30%	1,012
2002	67,085,000	2,104,182,394	3.19%	976
2003	68,545,000	2,354,407,942	2.91%	997
2004	73,230,000	2,366,125,563	3.09%	1,065
2005	73,470,000	2,789,882,310	2.63%	1,069
2006	76,900,000	2,805,711,189	2.74%	1,119

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

* Population data can be found in the Schedule of Demographic and Economic Statistics.

**City of Waterloo, Iowa
Direct and Overlapping Governmental Activities Debt
As of June 30, 2006**

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
City of Waterloo direct debt	<u>\$ 76,900,000</u>	100.00%	<u>\$ 76,900,000</u>
Overlapping:			
Black Hawk County	\$ 13,310,000	48.60%	\$ 6,468,660
Hudson Community Schools	2,600,000	7.85%	204,100
Hawkeye Community College	<u>2,210,000</u>	28.17%	<u>622,557</u>
Subtotal, overlapping debt	<u>\$ 18,120,000</u>		<u>\$ 7,295,317</u>
Total direct and overlapping debt	<u><u>\$ 95,020,000</u></u>		<u><u>\$ 84,195,317</u></u>

Source: Black Hawk County Auditor

**City of Waterloo, Iowa
Legal Debt Margin Information
Last Ten Fiscal Years**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Debt Limit	\$ 88,679,539	\$ 101,156,467	\$ 101,156,470	\$ 100,436,476	\$ 103,656,852	\$ 120,614,300	\$ 120,526,268	\$ 121,093,664	\$ 136,617,416	\$ 140,285,559
Total net debt applicable to limit	60,406,774	60,612,322	66,684,403	66,347,753	73,069,875	70,326,351	70,833,660	75,643,160	77,219,958	80,363,486
Legal debt margin	<u>\$ 28,272,765</u>	<u>\$ 40,544,145</u>	<u>\$ 34,472,067</u>	<u>\$ 34,088,723</u>	<u>\$ 30,586,977</u>	<u>\$ 50,287,949</u>	<u>\$ 49,692,608</u>	<u>\$ 45,450,504</u>	<u>\$ 59,397,458</u>	<u>\$ 59,922,073</u>
Total net debt applicable to the limit as a percentage of debt limit	68.12%	59.92%	65.92%	66.06%	70.49%	58.31%	58.77%	62.47%	56.52%	57.29%

Legal Debt Margin Calculation for Fiscal Year 2006

Estimated actual valuation (assessed) as of January 1, 2004	\$ 2,805,711,189
Debt limit (5% of total estimated actual valuation)	140,285,559
Debt applicable to debt limit:	
General obligation bonds	76,650,000
General obligation capital loan notes	250,000
Other debt	<u>3,463,486</u>
Total net debt applicable to limit	<u>80,363,486</u>
Legal debt margin	<u>\$ 59,922,073</u>

**City of Waterloo, Iowa
Sewer Revenue Bond Coverage
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Revenue</u>	<u>Less: Applicable Operating Expenses</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service Requirements</u>	<u>Coverage</u>
1997	\$ 8,470,749	\$ 3,786,454	\$ 4,684,295	\$ 2,966,050	1.5793
1998	8,390,715	4,232,070	4,158,645	3,325,105	1.2507
1999	8,604,707	4,413,235	4,191,472	3,687,368	1.1367
2000	8,738,606	4,306,393	4,432,213	3,522,199	1.2584
2001	8,620,518	4,063,694	4,556,824	3,466,156	1.3147
2002	8,646,771	4,330,170	4,316,601	3,436,606	1.2561
2003	9,257,236	4,336,741	4,920,495	3,427,576	1.4356
2004	9,653,550	4,445,425	5,208,125	3,401,386	1.5312
2005	9,735,550	4,455,001	5,280,549	3,664,551	1.4410
2006	10,564,246	4,860,721	5,703,525	3,060,298	1.8637

**City of Waterloo, Iowa
Demographic and Economic Statistics
Last Ten Calendar Years**

<u>Year</u>	<u>Population¹</u>	<u>Personal Income</u>	<u>Per Capita Personal Income²</u>	<u>Median Age¹</u>	<u>Unemployment Rate³</u>	<u>School Enrollment⁴</u>
1996	66,467	\$ 1,406,042,918	\$ 21,154	N/A	5.4%	10,562
1997	66,467	1,504,945,814	22,642	N/A	4.6%	10,448
1998	66,467	1,556,790,074	23,422	N/A	4.3%	10,544
1999	66,467	1,547,750,562	23,286	N/A	4.7%	10,397
2000	68,747	1,704,581,865	24,795	35.9	3.8%	10,290
2001	68,747	1,768,791,563	25,729	35.9	4.3%	10,311
2002	68,747	1,869,162,183	27,189	35.9	5.0%	10,402
2003	68,747	1,908,141,732	27,756	35.9	5.8%	10,465
2004	68,747	2,077,946,822	30,226	35.9	6.1%	10,472
2005	68,747	2,153,912,257	31,331	35.9	5.3%	10,391

N/A = Not available.

Sources:

¹ 1990 and 2000 U.S. Census

² U.S. Department of Commerce, Bureau of Economic Analysis

³ Iowa Dept. of Revenue and Finance

⁴ Waterloo Community Schools

**City of Waterloo, Iowa
Principal Area Employers
Current Year and Nine Years Ago**

Employer	2006			1997		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Deere & Company	5,400	1	15.79%	6,000	1	17.75%
Covenant Medical Center	3,005	2	8.79%	2,000	3	5.92%
Tyson Fresh Meats (formerly IBP, Inc.)	2,500	3	7.31%	2,200	2	6.51%
University of Northern Iowa	2,170	4	6.35%	1,650	4	4.88%
Waterloo Public Schools	1,800	5	5.26%	1,300	5	3.85%
Allen Memorial Hospital	1,605	6	4.69%	1,100	7	3.25%
Bertch Cabinet Manufacturing	1,500	7	4.39%	800	10	2.37%
Omega Cabinets	1,200	8	3.51%	--	--	--
Hy-Vee	980	9	2.87%	1,200	6	3.55%
GMAC Mortgage Corp.	920	10	2.69%	900	9	2.66%
Area Education Agency 7	--	--	--	1,000	8	2.96%
Total	21,080		61.64%	18,150		53.70%

City of Waterloo, Iowa
Full-Time Equivalent City Government Employees by Function/Program
Last Ten Fiscal Years

Function/Program	Full-Time Equivalent Employees as of June 30									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Public Safety										
Police	135.0	136.0	130.0	134.0	127.0	127.0	134.0	126.0	132.0	130.0
Fire	125.0	125.0	125.0	122.0	119.0	119.0	119.0	117.0	117.0	121.0
Building Inspection	10.0	10.0	13.0	13.0	13.0	13.0	13.0	14.0	14.0	15.0
Public Works										
City Engineer	18.0	18.0	19.0	18.0	18.0	17.0	18.0	18.0	18.0	19.0
Traffic	16.0	17.0	16.0	17.0	15.0	16.0	15.0	17.0	16.0	12.5
Central Garage	12.0	13.0	12.0	12.0	11.0	11.0	11.0	10.5	9.5	9.5
Street	51.0	52.0	50.0	52.0	47.0	43.0	41.0	41.0	41.0	36.0
Airport	5.0	5.0	4.0	5.0	4.0	4.0	4.0	5.5	5.5	5.5
Health & Social Services										
Human Rights	4.0	4.0	4.0	4.0	5.0	5.0	5.0	5.0	3.0	3.0
Culture & Recreation										
Recreation	17.0	16.0	--	--	--	--	--	--	--	--
Cultural & Arts *	--	--	8.0	8.0	8.5	8.5	8.5	8.5	8.0	9.5
Library	33.5	34.0	33.5	29.0	27.5	27.0	25.5	24.0	24.5	25.0
Leisure Services **	32.5	33.5	39.5	38.0	36.0	35.0	35.0	35.0	42.0	38.0
Community & Economic Development										
Community Planning & Development	22.0	20.0	23.0	20.0	22.0	24.0	23.0	25.0	27.0	26.0
General Government										
Mayor's Office	1.0	1.0	1.5	1.0	1.0	1.0	1.0	1.5	1.5	1.0
Administrative Services/MIS	2.0	2.0	3.0	3.0	2.0	2.0	2.0	2.0	2.0	2.0
City Clerk & Finance	11.0	12.0	11.5	11.0	11.0	9.0	12.0	12.0	12.0	13.0
City Attorney	2.0	2.0	2.0	2.0	2.0	2.0	1.0	1.5	1.5	1.5
Human Resources	3.0	3.0	4.0	4.0	3.0	3.0	3.0	2.0	3.0	3.0
Facilities Maintenance	5.0	4.0	6.0	6.0	6.0	6.0	5.0	4.0	4.0	3.0
Waste Management Services										
Sewer	43.0	42.0	35.0	33.0	29.0	31.1	31.1	30.1	28.1	30.1
Sanitation	19.0	18.0	18.0	16.0	16.0	14.9	12.9	12.9	12.9	12.9
Total	<u>567.0</u>	<u>567.5</u>	<u>558.0</u>	<u>548.0</u>	<u>523.0</u>	<u>518.5</u>	<u>520.0</u>	<u>512.5</u>	<u>522.5</u>	<u>516.5</u>

* Prior to fiscal year 1999, these employees were included under the Recreation Department.

** Prior to fiscal year 1999, employees for Sports and Young Arena were included under the Recreation Department.

Source: City Human Resources Department records.

City of Waterloo, Iowa
Operating Indicators by Function/Program
Last Ten Fiscal Years
(Page 1 of 2)

Function/Program	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Public Safety										
Police										
Traffic accidents	2,821	2,641	2,596	2,567	2,350	2,089	2,196	2,110	2,129	1,626
Cases	17,023	16,070	14,767	14,660	14,516	15,118	14,910	14,622	14,857	12,846
Citations	N/A	9,455	10,278	13,540	9,179	13,166	11,415	11,610	12,601	10,658
Calls for service	N/A	N/A	N/A	N/A	N/A	66,590	66,411	66,447	68,365	65,339
Total arrests	5,389	4,939	4,677	4,523	4,456	5,146	5,330	5,510	6,157	5,368
Fire										
Fire responses	3,865	3,995	4,151	4,133	3,848	3,541	5,831	5,614	5,536	5,631
Ambulance responses	5,451	5,643	5,770	5,379	5,726	5,158	6,442	6,685	6,656	6,744
Building Inspection										
Construction permits issued	7,016	8,865	8,013	9,550	8,913	9,238	9,396	10,168	8,988	8,448
Construction value of permits	\$ 62,892,199	\$ 76,804,492	\$ 89,104,465	\$ 65,445,292	\$ 62,936,151	\$ 52,971,240	\$ 75,434,613	\$ 102,794,224	\$ 106,704,462	\$ 110,122,334
Public Works										
Engineering										
Street reconstruction (miles)	2.61	2.47	3.00	2.46	2.86	2.59	3.09	2.56	1.94	3.39
Street resurfacing (miles)	26.52	28.71	29.48	35.91	19.76	25.48	26.22	29.72	29.83	31.30
Street Department										
Tons of salt used for streets	4,241.55	5,033.35	5,898.28	5,169.73	5,035.61	2,500.32	3,396.93	5,001.08	4,508.17	5,556.52
Man hours for road maintenance	103,540	103,540	99,380	97,300	97,300	84,820	71,530	71,530	73,390	75,580
Airport										
Commercial Enplanements	66,825	60,634	65,689	64,244	42,032	35,538	42,281	39,408	40,140	38,750
Aircraft take-offs and landings	56,230	51,202	52,345	51,815	34,212	35,321	42,301	41,919	42,690	41,717
Based aircraft	89	90	92	94	97	96	97	99	102	101
Culture & Recreation										
Leisure Services										
Young Arena facility usage										
Black Hawk USHL attendance	75,703	77,725	76,270	74,911	72,384	62,292	78,637	86,558	85,931	81,955
Public skating admissions	14,886	14,810	13,907	14,934	13,041	10,195	6,705	5,906	4,817	6,235
Sports - youth programs	4,029	3,998	4,015	4,116	4,312	4,251	4,165	4,216	4,056	4,119
Sports - adult programs	956	988	1,015	1,025	989	1,003	1,222	1,172	1,216	1,158
Pool attendance	N/A	N/A	N/A	53,655	51,816	53,655	44,540	44,279	41,028	39,512
Golf rounds	143,948	139,391	143,521	147,046	124,405	125,547	116,401	113,968	105,939	102,131
Annual flowers grown for parks	N/A	28,440	28,588	23,776	26,752	25,264	25,288	24,536	25,368	23,520
Public Library										
Total Circulation	469,872	483,229	475,816	451,127	445,934	475,015	490,708	466,903	422,663	433,072
Total Library Visits	264,450	281,436	279,563	263,154	223,775	270,614	259,583	265,439	269,589	266,356
Waterloo Center for the Arts										
In House Visitors	N/A	N/A	N/A	100,237	104,100	105,000	102,741	96,668	97,926	98,897

City of Waterloo, Iowa
Operating Indicators by Function/Program
Last Ten Fiscal Years
(Page 2 of 2)

Function/Program	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Community & Economic Development										
Planning and Zoning										
Planning commission agenda items	70	76	93	86	75	98	97	113	100	93
CURA applications received *	N/A	N/A	N/A	48	41	35	69	37	60	46
CURA improvements value	N/A	N/A	N/A	\$ 3,324,373	\$ 827,936	\$ 1,107,789	\$ 2,103,121	\$ 6,043,036	\$ 5,304,997	\$ 6,856,057
Housing										
Actual vouchers	391	405	392	650	854	903	1,031	1,022	1,015	957
Actual certificates **	390	398	367	195	27	-	-	-	-	-
Public housing units	50	50	50	50	50	50	50	50	50	50
Family self sufficiency participants	80	80	96	103	89	92	105	98	101	74

* Consolidated Urban Revitalization Area.

** Certificate program combined with vouchers during fiscal year 2001.

N/A - not available

**City of Waterloo, Iowa
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years**

Function/Program	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Public Safety										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Fire										
Stations	7	7	7	7	7	7	7	7	7	7
Trucks and special vehicles	28	28	28	28	30	30	30	30	30	30
Public Works										
Miles of streets - paved	340	340	360	360	360	360	360	360	352	352
Miles of streets - unpaved	80	80	65	65	65	65	65	65	74	74
Airport runway lengths										
Runway 12/30	8,400	8,400	8,400	8,400	8,400	8,400	8,400	8,400	8,400	8,400
Runway 18/36	6,002	6,002	6,002	6,002	6,002	6,002	6,002	6,002	6,002	6,002
Runway 6/24	5,403	5,403	5,403	5,403	5,403	5,403	5,403	5,403	5,403	5,403
Culture & Recreation										
City parks	48	48	48	48	48	48	48	48	48	48
Golf courses	3	3	3	3	3	3	3	3	3	3
Swimming pools	2	2	2	2	2	2	2	2	2	2
Softball diamonds	23	23	23	23	23	23	23	23	23	23
Baseball diamonds	8	9	9	9	9	9	9	8	8	8
Baseball stadium	1	1	1	1	1	1	1	1	1	1
Softball complex	1	1	1	1	1	1	1	1	1	1
Tennis courts	27	27	27	27	27	27	27	27	27	27
Ice arena	1	1	1	1	1	1	1	1	1	1
Soccer complex	0	0	0	0	1	1	1	1	1	1
Skatepark	0	0	0	0	0	1	1	1	1	1
Library Collection Size	211,120	203,553	189,945	191,840	180,021	180,698	199,482	201,158	205,149	210,020
Sewer										
Miles of sanitary sewer	353	353	353	353	353	353	353	353	353	353

Financial Assistance Section



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

To the Mayor and City Council
City of Waterloo, Iowa

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Waterloo, Iowa, as of and for the year ended June 30, 2006, and the discretely presented component units as of and for the year ended December 31, 2005 and June 30, 2006, as applicable, which collectively comprise the City of Waterloo, Iowa's basic financial statements, and have issued our report thereon dated February 23, 2006 for the discretely presented component unit, October 5, 2006 for the Waterloo Convention & Visitors Bureau, Inc. component unit and December 6, 2006 for all other reporting units.

We conducted our audits 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 audits, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected in a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

Steven K. Duggan Dennis E. Hogan
Anne M. Halbmaier Stephen J. Kos Dale E. Minor Lisa M. Wall Susan M. Wilson Karilyn A. Wood

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

HOGAN - HANSEN

HOGAN - HANSEN

Waterloo, Iowa
December 6, 2006

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Certified Public Accountants and Consultants

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

To the Mayor and City Council
City of Waterloo, Iowa

Compliance

We have audited the compliance of the City of Waterloo, Iowa, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and in the *Passenger Facility Audit Guide for Public Agencies (Guide)* that are applicable to each of its major federal programs and its Passenger Facility Charge Program for the year ended June 30, 2006. The City of Waterloo, Iowa's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs, while its Passenger Facility Charge Program is shown in the accompanying Schedule of Passenger Facility Charges Collected and Expended. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs and its Passenger Facility Charge Program is the responsibility of the City of Waterloo, Iowa's management. Our responsibility is to express an opinion on the City of Waterloo, Iowa's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and the *Passenger Facility Charge Audit Guide for Public Agencies (Guide)*. Those standards, OMB Circular A-133 and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred and about whether the City of Waterloo, Iowa, complied with the regulations issued by the Federal Aviation Administration of the U.S. Department of Transportation to implement Sections 9110 and 9111 of the Aviation Safety and Capacity Expansion Act of 1990, noncompliance with which would be material to the Passenger Facility Charge Program. An audit includes examining, on a test basis, evidence about the City of Waterloo, Iowa's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Waterloo, Iowa's compliance with those requirements.

In our opinion, the City of Waterloo, Iowa, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs and its passenger facility charge program for the year ended June 30, 2006.

Steven K. Duggan Dennis E. Hogan

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Internal Control Over Compliance

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

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

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

HOGAN - HANSEN

HOGAN - HANSEN

Waterloo, Iowa
December 6, 2006

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Catalog of Federal Domestic Assistance Number	Other Applicable Number	Federal Program/Cluster Expenditures
Department of Commerce			
Direct			
Grants for Public Works and Economic Development Facilities.....	11.300	05-01-03718	\$ <u>314,374</u>
Total Department of Commerce			<u>314,374</u>
Department of Housing and Urban Development			
Direct			
Community Development Block Grants/Entitlement Grants (Note 2)	14.218		2,190,149
HOME Investment Partnerships Program.....	14.239		461,030
Fair Housing Assistance Program - State and Local Public and Indian Housing (Note 3)	14.401	FF207K027014	117,793
Section 8 Housing Choice Vouchers.....	14.850		172,310
Public Housing Capital Fund.....	14.871		4,903,036
Public Housing Capital Fund.....	14.872		134,974
Lead-Based Paint Hazard Control in Privately Owned Housing	14.900	IAL-HB-0248-03	732,027
Title 1, VA-HUD Independent Agencies Appropriations Act for FY 2001, PL 106-988	14.XXX	B-01-NI-IA-WL-0003	116,347
Public Law 108-7, FY 2003 Appropriations Act for HUD and other agencies	14.XXX	B-03-SPIA 0192	85,546
Public Law 108-199, Appropriations Act for FY 2004 VA-HUD-Independent Agencies	14.XXX	B-04-NI-IA-0012	<u>134,644</u>
Total Direct.....			<u>9,047,856</u>
Indirect			
Pass Through Iowa Department of Economic Development Emergency Shelter Grants Program	14.231	05-ES-001	<u>127,239</u>
Total Department of Housing and Urban Development.....			<u>9,175,095</u>
Department of Interior			
Indirect			
National Park Service Pass Through Silos and Smokestacks Save America's Treasures	15.929	Grant's Farm	<u>8,787</u>

The accompanying notes are an integral part of this schedule.

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Catalog of Federal Domestic Assistance Number	Other Applicable Number	Federal Program/Cluster Expenditures
Department of Justice			
Direct			
Local Law Enforcement Block Grants Program	16.592	2004-LB-BX-0600 2003-LB-BX-0419	\$ 1,742 <u>183</u> 1,925
Bulletproof Vest Partnership Program.....	16.607	2002-SH-WX-0480	13,173
Public Safety Partnership and Community Policing Grants	16.710	2003-OM-WX-0086	10,042
Edward Byrne Memorial Justice Assistance Program (Note 2)	16.738	2005-DJ-BX-0046	<u>87,830</u>
Total Direct.....			<u>112,970</u>
Indirect			
Pass Through Iowa Governor's Alliance on Substance Abuse Drug Control and System Improvement Substance Abuse Prevention - Byrne Formula Grant Program (Note 2).....	16.579	04A-0226	191,971
Pass Through Iowa Department of Justice Violence Against Women Formula Grants.....	16.588	VW-06-76B	40,000
Pass Through Iowa Governor's Alliance of Drug Control Policy Community Prosecution and Project Safe Neighborhoods.....	16.609	03-ND02	25,514
Public Safety Partnership and Community Policing Grants.....	16.710	0001-05-595-R70-8048-4125	82,035
Pass Through Iowa Department of Human Rights, Division of Criminal and Juvenile Justice Planning Enforcing Underage Drinking Laws Program	16.727	06-JD01-F502	<u>797</u>
Total Indirect			<u>340,317</u>
Total Department of Justice			<u>453,287</u>
Department of Transportation			
Direct			
Federal Aviation Administration Airport Improvement Program	20.106	3-19-0094-23 3-19-0094-25 3-19-0094-26 3-19-0094-27 3-19-0094-28 3-19-0094-29	137,462 624,725 192,637 925,093 1,138,741 <u>124,863</u> 3,143,521
Office of the Secretary Payments for Small Community Air Service Development	20.930		<u>163,655</u>
Total Direct			<u>3,307,176</u>

The accompanying notes are an integral part of this schedule.

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Catalog of Federal Domestic Assistance Number	Other Applicable Number	Federal Program/ Cluster Expenditures
Indirect			
Federal Highway Administration			
Pass Through Iowa Department of Transportation			
Highway Planning and Construction	20.205	STP-U-8155(651)--70-07	\$ 15,580
		STP-A-8155(36)--86-07	765
		BRM-8155(650) &	
		STP-U-8155(652)	279,961
		STP-E-8155(678)--8V-07	37,056
		NHSX-63-6(69)--3H-07	37,474
		STP-U-8155(616)--70-07	527,196
		STP-U-8155(656)--70-07	<u>26,825</u>
			924,857
National Highway Traffic Safety Administration			
Pass Through Iowa Department of Public Safety			
Governor's Traffic Safety Bureau			
Alcohol Traffic Safety and Drunk Driving			
Prevention Incentive Grants.....	20.601	PAP-05-163 Task 65	11,645
		PAP-05-410 Task 45	3,966
		PAP-06-163 Task 69	5,692
		PAP-06-410 Task 34	<u>16,330</u>
Total Indirect			<u>962,490</u>
Total Department of Transportation			<u>4,269,666</u>
National Foundation on the Arts and the Humanities			
Direct			
Institute of Museum and Library Services			
National Leadership Grants	45.312	CM-00-05-0041-05	101,090
Indirect			
National Endowment for the Humanities			
Pass Through Iowa Arts Council			
Promotion of the Humanities - Federal/State			
Partnership.....	45.129	FY05-0145OSP	<u>15,200</u>
Total National Foundation on the Arts and the Humanities			<u>116,290</u>

The accompanying notes are an integral part of this schedule.

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Catalog of Federal Domestic Assistance Number	Other Applicable Number	Federal Program/Cluster Expenditures
Environmental Protection Agency			
Direct			
Brownfield Assessment and Cleanup Cooperative Agreements	66.818	BF-98736101-0 BF-98766101-0	\$ 73,857 <u>25,409</u> 99,266
Appropriations Act of 1995 Wastewater Treatment Facilities	66.XXX	XP99 7139 01	<u>16,516</u>
Total Environmental Protection Agency			<u>115,782</u>
Department of Education			
Indirect			
Office of Innovation and Improvement Pass Through Iowa Arts Council Arts in Education	84.351	2006-3662	<u>7,900</u>
Department of Health and Human Services			
Direct			
Centers for Disease Control and Prevention Injury Prevention and Control Research and State and Community Based Programs	93.136	H28/CCH723811-02	<u>152,033</u>
Department of Homeland Security			
Direct			
Federal Emergency Management Agency Assistance to Firefighters Grant	97.044	EMW-2004-FG-05200	<u>75,600</u>
Indirect			
State Domestic Preparedness Equipment Support Program	97.004		
Iowa Department of Public Defense, Homeland Security and Emergency Management.....		FY2004 and FY2005-LETP-LEIN2-02	392,239
City of Des Moines		Equipment donated	233,118
Black Hawk County Emergency Management Association.....		Equipment donated	<u>62,760</u>
Total Indirect, Program 97.004.....			<u>688,117</u>
Total Department of Homeland Security			<u>763,717</u>
Total Expenditures of Federal Awards			<u>\$ 15,376,931</u>

The accompanying notes are an integral part of this schedule.

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

Note 1. Basis of Presentation

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

Note 2. Subrecipients

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

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Community Development Block Grant - Entitlement Grants	14.218	\$ 95,927
Edward Byrne Memorial Justice Assistance Grant.....	16.738	44,091
Byrne Formula Grant Program	16.579	103,723

Note 3. Program 14.850

The City's Waterloo Housing Authority has long-term debt payable to the Federal Financing Bank (FFB). Each November 1, the City receives a debt subsidy of \$86,364 as a principal and interest payment on the loan. The City records the subsidy as revenue and an expenditure for debt service. On June 30, 2006, the principal balance on the loan was \$617,849. Since there are continuing compliance obligations regarding the loan, the principal balance is considered federal financial assistance. Federal expenditures for the program consisted of the following:

Operating subsidy.....	\$ 85,946
Debt subsidy.....	<u>86,364</u>
Subtotal Cash Assistance	172,310
Loan balance	<u>617,849</u>
Total	<u>\$ 790,159</u>

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Section I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness identified? yes no

Reportable condition identified not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

Material weakness identified? yes no

Reportable condition identified not considered to be material weakness? yes none reported

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

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

Identification of major programs:

CFDA Numbers

14.871
20.106
97.004

Name of Federal Program or Cluster

Section 8 Housing Choice Vouchers
Airport Improvement Program
State Domestic Preparedness Support Program

Dollar threshold used to distinguish between Type A and Type B programs: \$461,308

Auditee qualified as low-risk auditee? yes no

Section II: Findings Related to the Financial Statements:

Instances of Noncompliance:

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

Internal Control Over Financial Reporting

Prior year reportable conditions have been resolved.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Section III: Findings and Questioned Costs for Federal Awards:

Instances of Noncompliance

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

Reportable Conditions

No current or prior year matters were reported.

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

Instances of Noncompliance

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

Reportable Conditions

There were no prior or current year matters reported.

Section V: Findings Related to Statutory Reporting

Prior year findings related to statutory reporting have been resolved except for items 06-V-H and 06-V-J.

- 06-V-A Certified Budget** - We noted no disbursements during the year ended June 30, 2006 that exceeded the amended budget.
- 06-V-B Questionable Disbursements** - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 06-V-C Travel Expense** - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- 06-V-D Business Transactions** - There were no business transactions between the City of Waterloo and City officials or employees or members of their immediate families which may appear to be conflicts of interest.
- 06-V-E Bond Coverage** - Surety bond coverage of the City of Waterloo officials and employees is in accordance with statutory provisions and was reviewed and updated during the year. We recommend that the amount of coverage continue to be reviewed annually to insure that the coverage is adequate for current operations.
- 06-V-F Council Minutes and Resolutions** - No transactions were found that we believe should have been approved in the minutes but were not. Minutes of the City Council proceedings were published within 15 days as required by Chapter 372.13(6) of the Code of Iowa.
- 06-V-G Deposits and Investments** - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

06-V-H Financial Condition - The following funds had deficit balances at June 30, 2006:

Grants, Special Revenue.....	\$ 307,488
FAA Projects, Special Revenue.....	824,804
Capital Improvements, Capital Projects.....	83,461

Auditor's Recommendations - The City should investigate alternatives to eliminate this deficit in order to return the fund to a sound financial position. The grants fund had a deficit at June 30, 2005 of \$223,204.

City's Response - The deficits occur because governmental accounting principles require that liabilities, such as retainages, be recognized when incurred but that revenue not received within 60 days of year end not be recognized until received, thereby creating a deficit fund balance. These are temporary deficits which will be cleared when the revenue is received. The City is implementing procedures to request these reimbursements in a more timely manner. However, there are situations when delays of more than 60 days are unavoidable, and therefore, these funds will continue to reflect deficit balances.

Auditor's Conclusion - Response accepted.

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

06-V-J Airport Ordinance

Prior Year Finding and Recommendation - We noted that the City adopted ordinance number 4400 on December 13, 1999 which established an Airport Board of Directors and requires the Board to "Maintain a positive cash balance at all times in airport operations". Airport operations are accounted for in the General Fund (Fund 010), Airport Commission Department (Department number 29), Airport Administration Activity (activity number 7700). Through June 30, 2005, cash deficits totaled \$591,051.

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

Current Year Finding - The City did not amend the airport ordinance to repeal the positive cash balance requirement. During the year ended June 30, 2006, airport operations incurred a cash loss of \$150,353, resulting in an accumulated cash deficit of \$741,404.

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

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

Auditor's Conclusion - Response accepted.

Schedule of Passenger Facility Charges Collected and Expended

Year Ended June 30, 2006

	Application Approval Number	Beginning Balance Unliquidated PFC	PFC Collections	Interest Earned	Expend- itures	Ending Balance Unliquidated PFC
Runway 12-30 rejuvenation	01-04-C-00-ALO	\$ 29,135	\$ —	\$ —	\$ —	\$ 29,135
PFC annual audit and program administration	03-05-C-00-ALO	28,522	—	—	8,909	19,613
Part 139 guidance signs	03-05-C-00-ALO	38,000	—	—	1,467	36,533
Acquisition of snow removal equipment	03-05-C-00-ALO	—	—	—	—	— *
Perimeter fencing	03-05-C-00-ALO	78,894	—	—	45,721	33,173
Acquisition of aircraft rescue and fire	03-05-C-00-ALO	—	5	—	5	—
Reconstruction of terminal area ramp	03-05-C-00-ALO	<u>36,600</u>	<u>132,143</u>	<u>1,153</u>	<u>66,935</u>	<u>102,961</u>
Total		<u>\$ 211,151</u>	<u>\$ 132,148</u>	<u>\$ 1,153</u>	<u>\$ 123,037</u>	<u>\$ 221,415</u>

* Project completed

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

Cumulative approvals for collections and uses are both \$2,058,024.

Schedule of Passenger Facility Charges Cash Activity

Year Ended June 30, 2006

Description	Totals 7-1-05	Quarter #1	Quarter #2	Quarter #3	Quarter #4	Totals for Year	Totals 6-30-06
Passenger Facility							
Charges collected ...	\$ 1,643,700	\$ 34,392	\$ 32,341	\$ 31,377	\$ 34,038	\$ 132,148	\$ 1,775,848
Interest	25,753	279	289	283	302	1,153	26,906
Expended	(1,458,302)	(2,990)	(78,695)	(22,294)	(19,058)	(123,037)	(1,581,339)
Net	<u>\$ 211,151</u>	<u>\$ 31,681</u>	<u>\$ (46,065)</u>	<u>\$ 9,366</u>	<u>\$ 15,282</u>	<u>\$ 10,264</u>	<u>\$ 221,415</u>