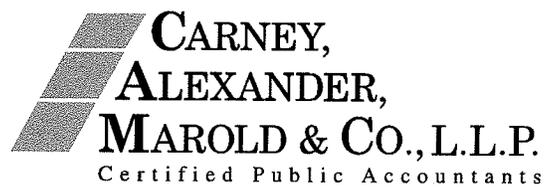

WATERLOO COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2006



WATERLOO COMMUNITY SCHOOL DISTRICT

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WATERLOO COMMUNITY SCHOOL DISTRICT

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--|--------------------|---------------------|
| Board of Education (Before September 2005 Election) | | |
| Pam Miller | President | 2007 |
| Barb Opheim | Vice-President | 2005 |
| Lyle Schmitt | Board Member | 2005 |
| Bernice Richard | Board Member | 2006 |
| Doug Faas | Board Member | 2006 |
| Judy Fossell | Board Member | 2006 |
| Don Hanson | Board Member | 2007 |
| Board of Education (After September 2005 Election) | | |
| Pam Miller | President | 2007 |
| Barb Opheim | Vice-President | 2008 |
| Bernice Richard | Board Member | 2006 |
| Doug Faas | Board Member | 2006 |
| Judy Fossell | Board Member | 2006 |
| Don Hanson | Board Member | 2007 |
| Lyle Schmitt | Board Member | 2008 |
| School Officials | | |
| Dr. Dewitt Jones | Superintendent | 2006 |
| Sharon Miller | District Secretary | 2006 |
| Jim Langstraat | District Treasurer | 2006 |
| Steve Weidner | Attorney | Indefinite |
| Edgar Bittle | Attorney | Indefinite |

Waterloo Community School District

Independent Auditors' Report

To the Board of Education of the
Waterloo Community School District

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Waterloo Community School District, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Waterloo Community School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our reports dated October 25, 2006 on our consideration of Waterloo Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 39 through 40 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Waterloo Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included on pages 41 through 48, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

October 25, 2006

Basic Financial Statements

Management Discussion and Analysis

As management of the Waterloo Community School District, we offer readers of the Waterloo Community School District's financial statements this narrative overview and analysis of the financial activities of the Waterloo Community School District for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

- The assets of the Waterloo Community School District exceeded its liabilities at the close of the most recent fiscal year by \$82,289,415 (net assets). Of this amount, \$1,670,472 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The State of Iowa granted a 4% allowable growth rate for fiscal year 2006. The State previously granted 4% allowable growth in fiscal year 2005, 2% for 2004, and 1% for 2003. The 1% growth in fiscal year 2003 was the lowest growth rate in over 20 years.
- Interest Rates increased to an average rate of 4.63% during the year. During the previous fiscal year the average interest rate was 2.54%. Interest earnings in the General Fund alone increased by \$119,005.
- By a public vote of 79.1% the local option sales and service tax was extended for an additional 10 years, into 2019.
- On June 1, 2006 the District issued \$35,000,000 School Infrastructure Local Option Sales and Services Tax Bonds and Revenue Anticipatory Notes. The notes have a three-year maturity. Proceeds from the issuance will be used to finance school infrastructure improvements. The debt will be repaid from local option sales and service tax or the issuance of bonds in the future.
- Remodeling of Kinsley Elementary School continued on schedule for the building to be put into service September 2006. As of June 30, 2006 approximately \$4.7 million was spent on this remodeling. The District has also started construction of Poyner Elementary. Poyner Elementary is scheduled to be constructed and put into service by September 2007. Poyner Elementary will replace Elk Run Elementary and Jewett Elementary. Since the original local option sales and services tax began in fiscal year 2000, the District has constructed four new elementary schools and done extensive remodeling at other schools. Prior to that it was over 25 years before any new school buildings were put into service.
- The District property tax rate of \$16.33 per thousand dollars of taxable valuation remains below the average for the 25 largest districts within Iowa.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of the Waterloo Community School District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Waterloo Community School District include regular and special education, transportation, plant operation and administration. The business-type activities include the food service and day care programs.

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

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

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

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

The Waterloo Community School District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and capital projects fund, both of which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The Waterloo Community School District adopts an annual appropriated budget for its governmental and proprietary funds. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

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

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

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

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

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Waterloo Community School District, assets exceeded liabilities by \$82,289,415 at the close of the most recent fiscal year.

By far the largest portion of the Waterloo Community School District's net assets (94.0 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment). The Waterloo Community School District uses these capital assets to provide services to citizens; consequently these assets are not available for future spending.

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

| | Governmental | Governmental | Business-type | Business-type | Total | Total |
|---|--------------|--------------|---------------|---------------|-----------|-----------|
| | Activities | Activities | Activities | Activities | | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Current and other assets | \$ 88,020 | \$ 45,637 | \$ 1,204 | \$ 1,321 | \$ 89,224 | \$ 46,958 |
| Capital Assets | 75,606 | 68,196 | 1,734 | 1,688 | 77,340 | 69,884 |
| Total Assets | 163,626 | 113,833 | 2,938 | 3,009 | 166,564 | 116,842 |
| Current Liabilities | 48,464 | 42,953 | 59 | 82 | 48,523 | 43,035 |
| Long-term Liabilities | 35,752 | 611 | - | - | 35,752 | 611 |
| Total Liabilities | 84,216 | 43,564 | 59 | 82 | 84,275 | 43,646 |
| Net Assets: | | | | | | |
| Invested in capital assets net of related debt | 74,739 | 68,196 | 1,734 | 1,688 | 76,473 | 69,884 |
| Restricted | 4,146 | 2,783 | - | - | 4,146 | 2,783 |
| Unrestricted | 525 | (710) | 1,145 | 1,239 | 1,670 | 529 |
| Total net assets | \$ 79,410 | \$ 70,269 | \$ 2,879 | \$ 2,927 | \$ 82,289 | \$ 73,196 |

An additional portion of the Waterloo Community School District's net assets (5 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$1,670,472) may be used to meet the district's ongoing obligations to citizens and creditors.

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

There was a decrease of \$48,347 in net assets reported in connection with the Waterloo Community School District's business-type activities.

The district's net assets increased by \$9,093,136 during the current fiscal year. The district's capital assets, including the facilities acquisition and construction activities, increased by \$7,455,252.

Governmental Activities. Governmental activities increased the Waterloo Community School District's net assets by \$9,141,510. Key elements of this increase are as follows:

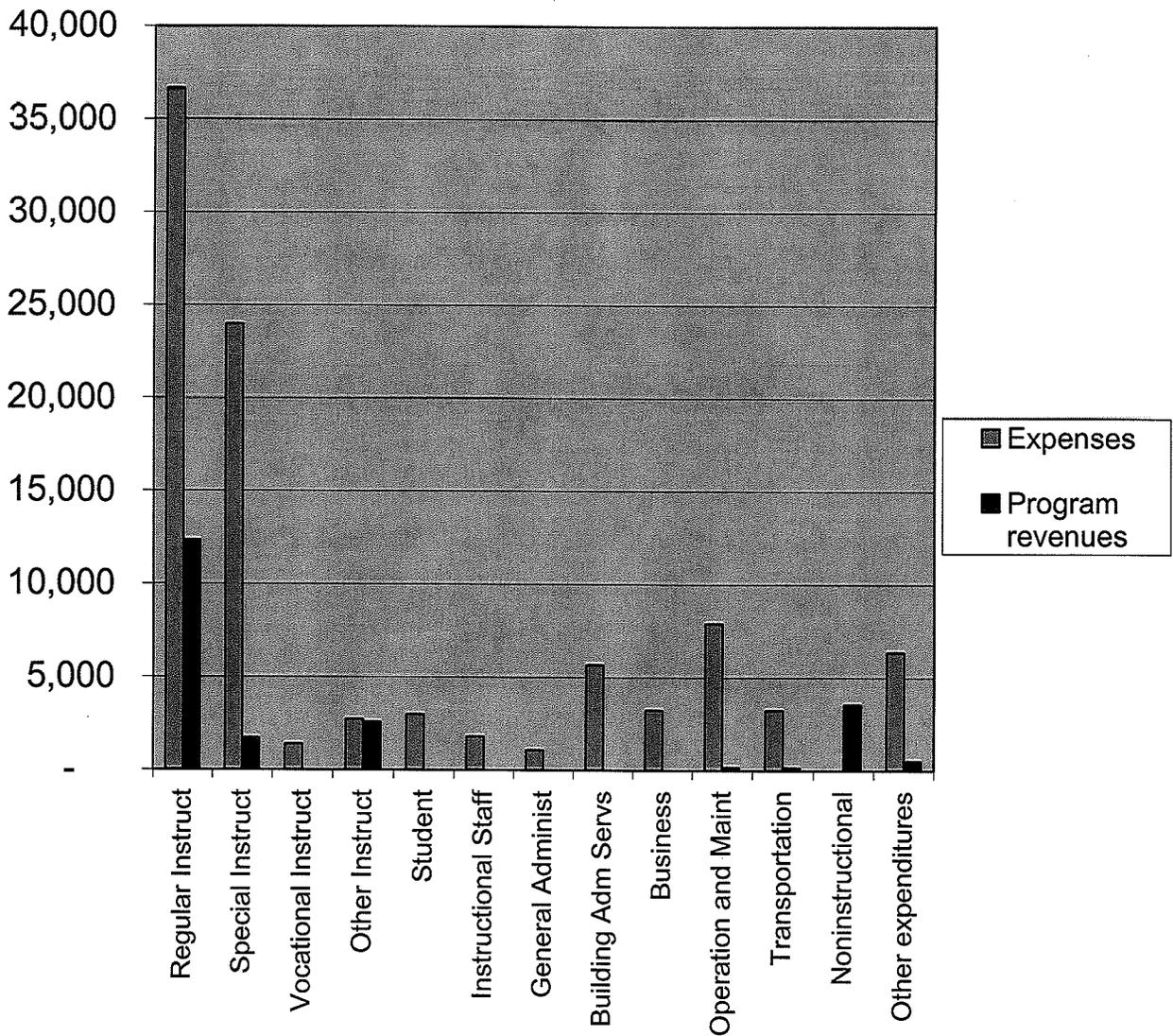
Waterloo Community School District's Changes in Net Assets
(amounts expressed in thousands)

| | Governmental Activities | | Business-type Activities | | Total | |
|--|-------------------------|------------------|--------------------------|-----------------|------------------|------------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 2,923 | \$ 2,969 | \$ 1,420 | \$ 1,662 | \$ 4,343 | \$ 4,631 |
| Operating grants and contributions | 17,652 | 17,144 | 3,127 | 2,984 | 20,779 | 20,128 |
| Capital grants and contributions | 511 | 600 | - | - | 511 | 600 |
| General revenues: | | | | | | |
| Property taxes | 31,724 | 30,926 | - | - | 31,724 | 30,926 |
| Local option taxes | 10,583 | 9,674 | - | - | 10,583 | 9,674 |
| Unrestricted state grants | 42,133 | 39,471 | - | - | 42,133 | 39,471 |
| Unrestricted investment earnings | 579 | 233 | 38 | 11 | 617 | 244 |
| Other | 313 | 227 | - | - | 313 | 227 |
| Total revenues | 106,418 | 101,244 | 4,585 | 4,657 | 111,003 | 105,901 |
| Expenses: | | | | | | |
| Regular instruction | 36,659 | 36,607 | - | - | 36,659 | 36,607 |
| Special instruction | 23,974 | 20,492 | - | - | 23,974 | 20,492 |
| Vocational instruction | 1,388 | 1,120 | - | - | 1,388 | 1,120 |
| Other instruction | 2,738 | 3,222 | - | - | 2,738 | 3,222 |
| Student services | 2,999 | 2,955 | - | - | 2,999 | 2,955 |
| Instructional staff services | 1,821 | 2,711 | - | - | 1,821 | 2,711 |
| General administration services | 1,085 | 923 | - | - | 1,085 | 923 |
| Building administration services | 5,666 | 4,858 | - | - | 5,666 | 4,858 |
| Business and central administration services | 3,234 | 886 | - | - | 3,234 | 886 |
| Operation and maintenance | 7,892 | 7,733 | - | - | 7,892 | 7,733 |
| Transportation services | 3,237 | 2,745 | - | - | 3,237 | 2,745 |
| Other expenditures | 6,361 | 7,811 | - | - | 6,361 | 7,811 |
| Noninstructional programs | 5 | 96 | 4,851 | 4,602 | 4,856 | 4,698 |
| Total expenses | 97,059 | 92,159 | 4,851 | 4,602 | 101,910 | 96,761 |
| Increase (decrease) in net assets before transfers | 9,359 | 9,085 | (266) | 55 | 9,093 | 9,140 |
| Transfers | (217) | (258) | 217 | 258 | - | - |
| Increase (decrease) in net assets | 9,142 | 8,827 | (49) | 313 | 9,093 | 9,140 |
| Net assets-7/1 | 70,269 | 61,442 | 2,927 | 2,614 | 73,196 | 64,056 |
| Net assets-6/30 | \$ 79,411 | \$ 70,269 | \$ 2,878 | \$ 2,927 | \$ 82,289 | \$ 73,196 |

Property taxes increased by \$798,318 (2.6 percent) during the year. This increase was due to a small increase in student enrollment, the need to increase cash reserves, and to cover the increased cost of liability insurance.

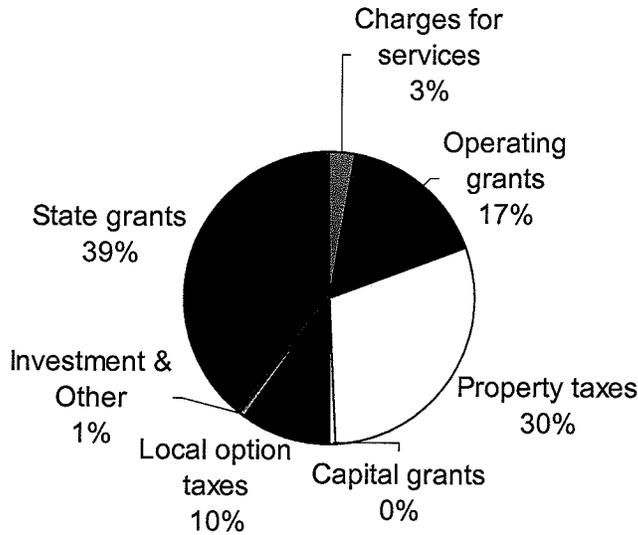
Operating grants for governmental activities increased by \$508,288 (3.0 percent), mostly as a result of an aggressive grant application philosophy by the Waterloo Community School District. New grant awards furnished resources to support three of the District's functions: regular instruction, special instruction and facilities acquisition. Obtaining grant funding has been a crucial strategy of the district to help offset reductions in state funding.

Expenses and Program Revenues-Governmental Activities



(amounts expressed in thousands)

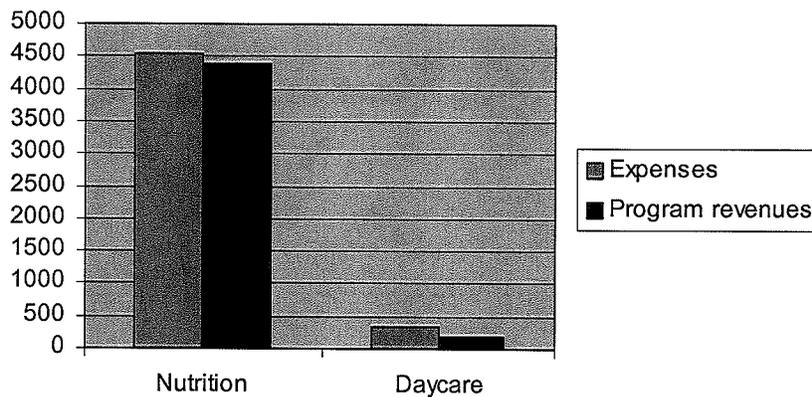
Revenues by Source-Governmental Activities



For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. One noteworthy exception occurs in the other expenditure category. Depreciation of assets was over \$1,500,000 (24% of the other expenditure category and 1% of all expenses) and reflects the gradual consumption of the asset over their useful life.

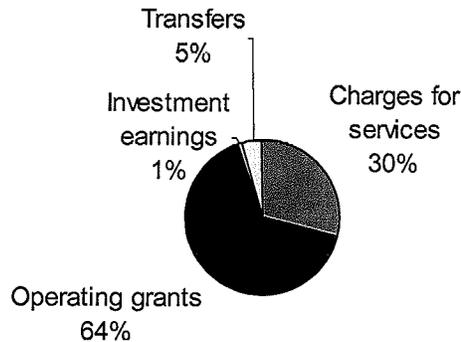
Business-type activities. Business type activities decreased the Waterloo Community School District's net assets by \$48,374. The loss was primarily due to a decrease in program revenues while operating expenses increased in the school nutrition fund.

Expense and Program Revenues-Business-type Activities



(amounts expressed in thousands)

Revenues by Source-Business-type Activities



Financial Analysis of the Government's Funds

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

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

At the end of the current fiscal year, the Waterloo Community School District's governmental funds reported combined ending fund balances of \$39,551,640, an increase of \$37,255,577 in comparison with the prior year. This increase was primarily due to an increase in long-term liabilities from the issuance of bonds payable in the capital projects fund. \$38,739,415 (98 percent) of the ending fund balance is unreserved fund balance, which is available for spending at the district's discretion. The remainder of the fund balance, \$812,225 is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders.

The general fund is the primary fund of the Waterloo Community School District. At the end of the current fiscal year, the general fund ending fund balance was \$680,010. The District's fund balance decreased by \$1,028,524 during the current fiscal year. Key factors in this decrease were:

- There were increases in special education students being served by the District during the year. Funding for those students does not come until the following year. During the interim these students need to be served. This led to expenditures in special education in excess of funding.
- Some schools within the District have been identified as a school in need of improvement under the provisions of the No Child Left Behind Act. District interventions include additional staff training, additional administrative assistance and the implementation of new programs.
- The District continues to receive a 4% increase in allowable growth. Operating costs including utility rates continue to increase faster than the increase in allowable growth funding.

The capital projects fund increased by \$36,921,063 due to the issuance of bonds payable. Since this liability is not due and payable in the current period, the related liability is not reported in the governmental funds.

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

Unrestricted net assets of the school nutrition fund at the end of the year were \$1,112,815 and for the daycare fund \$32,215. The net assets of the school nutrition fund decreased by \$28,919 and the day care fund decreased by \$19,455.

General Fund Budgetary Highlights

The final budget was amended during the year by \$6,424,377 (6 percent) to \$113,503,000. The reason for the amendment is summarized as follows:

- There was additional grant receipts or use of carryover balances beyond what was originally budgeted.
- Additional staffing was added during the year, beyond what was originally budgeted.

No additional funding was provided by this budget amendment. This increase did not result in any change in property tax levies.

Capital Asset and Debt Administration

Capital assets. The Waterloo Community School District’s investment in capital assets for its governmental and business-type activities as of June 30, 2006 was \$77,339,937 (net of accumulated depreciation). This investment in capital assets includes land, buildings and site improvements, construction in progress and machinery and equipment. The total increase in the Waterloo Community School District’s investment in capital assets for the current fiscal year was \$7,455,252 or 11 percent.

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

- The new Lou Henry Hoover Elementary was put into service to start the 2005-2006 school year. This was the fourth new elementary built since passing the local option sales and service tax in 1999.
- Kingsley Elementary was in the process of a complete renovation. This project was on schedule for the building to be re-opened and put into use for the start of the 2006-2007 school year.
- Remodeling projects continued at East High, West High, and Lowell Elementary.
- Planning and architectural work began for the construction of a new elementary to replace two existing schools, Jewett Elementary and Elk Run Elementary.

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

| | Governmental Activities | | Business-type Activities | | Total | |
|----------------------------|-------------------------|------------------|--------------------------|-----------------|------------------|------------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Land and site improvements | \$ 2,971 | \$ 2,321 | \$ - | \$ - | \$ 2,971 | \$ 2,321 |
| Buildings | 54,426 | 47,524 | - | - | 54,426 | 47,524 |
| Machinery and equipment | 6,714 | 6,445 | 1,734 | 1,688 | 8,448 | 8,133 |
| Construction in progress | 11,495 | 11,906 | - | - | 11,495 | 11,906 |
| Total | \$ 75,606 | \$ 68,196 | \$ 1,734 | \$ 1,688 | \$ 77,340 | \$ 69,884 |

(amounts expressed in thousands)

Additional information on the District’s capital assets can be found in the notes to the financial statements, note number four on page 42.

Long-term debt. During the current year the Waterloo Community School District had a \$10,000,000 line of credit with a local financial institution to meet short-term cash flow needs. The maximum borrowed on that line of credit at any one time was \$4,506,781. At June 30, 2006 the District had no outstanding balance on this line of credit.

On June 1, 2006 the District issued \$35,000,000 in School Infrastructure Local Option Sales and Services Tax Bond and Revenue Anticipatory Notes. The notes have a three-year maturity. Interest at the rate of 4.75% is payable every six months. The proceeds from these bonds will be used to finance the construction and renovation of school facilities within the District. Interest and principal will be repaid from local option sales and services taxes, investment income, and issuing of future bonds.

Additional information on the District's short-term and long-term debt can be found in the notes to the financial statements, note number five on page 44.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the local area is currently 3.6 percent, which is a decrease from a rate of 5.0 percent a year ago.
- The ACCRA Cost of Living Index composite score for Waterloo is 91.9% demonstrating the cost of living in Waterloo is below the national average of 100%. Both housing and grocery costs were below 90% of the national average.
- Inflationary trends in the region compare favorably to national indices.
- The state legislature established a growth rate of 4 percent for the 2006-2007 fiscal year. The revenues generated by a growth rate of 4 percent may not be sufficient to cover salary and benefit increases; staff reduction may be necessary.
- Student enrollment had remained stable for a few years. However the certified enrollment at September 2005, that establishes funding for the 2006-2007 school year, decreased by 100 students. Certified enrollment was 10,956 students in September 2005, a decrease of 0.9%.

All of these factors were considered in preparing the Waterloo Community School District's budget for the 2007 fiscal year and will be crucial in developing the budget for the 2008 fiscal year.

Requests for Information

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

WATERLOO COMMUNITY SCHOOL DISTRICT

**Statement of Net Assets
June 30, 2006**

| | Governmental Activities | Business type Activities | Total |
|--|----------------------------|-----------------------------|----------------------|
| Assets | | | |
| Cash and cash equivalents: | | | |
| ISCAP | \$ 4,993,050 | \$ - | \$ 4,993,050 |
| Other | 45,658,175 | 941,301 | 46,599,476 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 434,182 | - | 434,182 |
| Succeeding year | 32,379,373 | - | 32,379,373 |
| Accounts | 926,497 | 59,306 | 985,803 |
| Accrued ISCAP interest | 1,553 | - | 1,553 |
| Due from other governments | 2,693,494 | - | 2,693,494 |
| Inventories | 121,352 | 166,836 | 288,188 |
| Prepays | 812,225 | 36,115 | 848,340 |
| Capital assets, net of accumulated depreciation: | | | |
| Land | 1,457,441 | - | 1,457,441 |
| Construction in progress | 11,494,887 | - | 11,494,887 |
| Other capital assets | 62,653,895 | 1,733,714 | 64,387,609 |
| Total assets | <u>163,626,124</u> | <u>2,937,272</u> | <u>166,563,396</u> |
| Liabilities | | | |
| Accounts payable | 1,621,169 | 11,240 | 1,632,409 |
| Salaries and benefits payable | 8,314,554 | 47,288 | 8,361,842 |
| Accrued interest payable | 138,540 | - | 138,540 |
| Due to other governments | 970,017 | - | 970,017 |
| Unearned revenue, succeeding year property tax | 32,379,373 | - | 32,379,373 |
| ISCAP warrants payable | 5,000,000 | - | 5,000,000 |
| ISCAP accrued interest payable | 1,271 | - | 1,271 |
| ISCAP unamortized premium | 38,050 | - | 38,050 |
| Long-term liabilities: | | | |
| Portion due within one year: | | | |
| Compensated absences | 161,222 | - | 161,222 |
| Portion due more than one year: | | | |
| Revenue bonds payable | 35,591,257 | - | 35,591,257 |
| Total liabilities | <u>84,215,453</u> | <u>58,528</u> | <u>84,273,981</u> |
| Net assets | | | |
| Invested in capital assets, net of related debt | 74,738,858 | 1,733,714 | 76,472,572 |
| Restricted for: | | | |
| Management levy | 1,096,853 | - | 1,096,853 |
| Physical plant and equipment levy | 2,106,897 | - | 2,106,897 |
| Other special revenue purposes | 942,621 | - | 942,621 |
| Unrestricted | 525,442 | 1,145,030 | 1,670,472 |
| Total net assets | <u>\$ 79,410,671</u> | <u>\$ 2,878,744</u> | <u>\$ 82,289,415</u> |

See notes to basic financial statements.

WATERLOO COMMUNITY SCHOOL DISTRICT

**Statement of Activities
Year ended June 30, 2006**

| Functions/Programs | Expenses | Program Revenues | | |
|--|-----------------------|----------------------|--|---|
| | | Charges for Services | Operating Grant, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| Governmental Activities | | | | |
| Instruction: | | | | |
| Regular instruction | \$ 36,658,571 | \$ 529,962 | \$ 11,826,339 | \$ - |
| Special instruction | 23,973,626 | 336,671 | 1,393,521 | - |
| Vocational instruction | 1,387,865 | - | - | - |
| Other instruction | 2,738,381 | 1,890,929 | 698,123 | - |
| | <u>64,758,443</u> | <u>2,757,562</u> | <u>13,917,983</u> | <u>-</u> |
| Support services: | | | | |
| Student services | 2,999,077 | - | - | - |
| Instructional staff services | 1,821,171 | - | - | - |
| General administration services | 1,084,556 | - | - | - |
| Building administration services | 5,666,179 | - | - | - |
| Business and central administration services | 3,234,427 | - | - | - |
| Operation and maintenance | 7,892,223 | 165,499 | 16,000 | - |
| Transportation services | 3,236,660 | - | 159,653 | - |
| Other | 1,140,406 | - | - | 510,812 |
| AEA flowthrough | 3,558,701 | - | 3,558,701 | - |
| Depreciation (unallocated) | 1,540,391 | - | - | - |
| Long-term debt interest | 121,647 | - | - | - |
| | <u>32,295,438</u> | <u>165,499</u> | <u>3,734,354</u> | <u>510,812</u> |
| Noninstructional programs | <u>5,264</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total governmental activities | <u>97,059,145</u> | <u>2,923,061</u> | <u>17,652,337</u> | <u>510,812</u> |
| Business Type Activities | | | | |
| Noninstructional programs: | | | | |
| Nutrition services | 4,527,268 | 1,417,446 | 2,946,300 | - |
| Day care services | 323,648 | 2,985 | 180,822 | - |
| | <u>4,850,916</u> | <u>1,420,431</u> | <u>3,127,122</u> | <u>-</u> |
| Total | <u>\$ 101,910,061</u> | <u>\$ 4,343,492</u> | <u>\$ 20,779,459</u> | <u>\$ 510,812</u> |

Continued on following page.

Net (Expense) Revenue
and Changes in Net Assets

| Governmental Activities | Business Type Activities | Total |
|----------------------------|-----------------------------|---------------------|
| \$ (24,302,270) | \$ - | \$ (24,302,270) |
| (22,243,434) | - | (22,243,434) |
| (1,387,865) | - | (1,387,865) |
| (149,329) | - | (149,329) |
| <u>(48,082,898)</u> | <u>-</u> | <u>(48,082,898)</u> |
| (2,999,077) | - | (2,999,077) |
| (1,821,171) | - | (1,821,171) |
| (1,084,556) | - | (1,084,556) |
| (5,666,179) | - | (5,666,179) |
| (3,234,427) | - | (3,234,427) |
| (7,710,724) | - | (7,710,724) |
| (3,077,007) | - | (3,077,007) |
| (629,594) | - | (629,594) |
| - | - | - |
| (1,540,391) | - | (1,540,391) |
| (121,647) | - | (121,647) |
| <u>(27,884,773)</u> | <u>-</u> | <u>(27,884,773)</u> |
| (5,264) | - | (5,264) |
| <u>(75,972,935)</u> | <u>-</u> | <u>(75,972,935)</u> |
| - | (163,522) | (163,522) |
| - | (139,841) | (139,841) |
| <u>-</u> | <u>(303,363)</u> | <u>(303,363)</u> |
| <u>(75,972,935)</u> | <u>(303,363)</u> | <u>(76,276,298)</u> |

WATERLOO COMMUNITY SCHOOL DISTRICT

**Statement of Activities, continued
Year ended June 30, 2006**

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

See notes to basic financial statements.

Net (Expense) Revenue
and Changes in Net Assets

| Governmental Activities | Business Type Activities | Total |
|----------------------------|-----------------------------|----------------------|
| 31,723,960 | - | 31,723,960 |
| 10,582,746 | - | 10,582,746 |
| 42,132,723 | - | 42,132,723 |
| 579,058 | 38,087 | 617,145 |
| 312,860 | - | 312,860 |
| <u>(216,902)</u> | <u>216,902</u> | <u>-</u> |
| <u>85,114,445</u> | <u>254,989</u> | <u>85,369,434</u> |
| 9,141,510 | (48,374) | 9,093,136 |
| <u>70,269,161</u> | <u>2,927,118</u> | <u>73,196,279</u> |
| <u>\$ 79,410,671</u> | <u>\$ 2,878,744</u> | <u>\$ 82,289,415</u> |

WATERLOO COMMUNITY SCHOOL DISTRICT

**Balance Sheet
Governmental Funds
June 30, 2006**

| | General | Capital Projects | Other Nonmajor Governmental Funds | Total Governmental Funds |
|--------------------------------------|----------------------|----------------------|--|--------------------------------|
| Assets | | | | |
| Cash and pooled investments: | | | | |
| ISCAP | \$ 4,993,050 | \$ - | \$ - | \$ 4,993,050 |
| Other | 6,856,824 | 34,143,050 | 4,658,301 | 45,658,175 |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | 376,874 | - | 57,308 | 434,182 |
| Succeeding year | 28,059,294 | - | 4,320,079 | 32,379,373 |
| Accounts | 904,495 | - | 22,002 | 926,497 |
| Accrued ISCAP interest | 1,553 | - | - | 1,553 |
| Due from other governments | 1,012,305 | 1,681,189 | - | 2,693,494 |
| Inventories | 121,352 | - | - | 121,352 |
| Prepays | 803,932 | 1,367 | 6,926 | 812,225 |
| | <u>\$ 43,129,679</u> | <u>\$ 35,825,606</u> | <u>\$ 9,064,616</u> | <u>\$ 88,019,901</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 332,656 | \$ 1,100,347 | \$ 188,166 | \$ 1,621,169 |
| Salaries and benefits payable | 7,904,554 | - | 410,000 | 8,314,554 |
| Due to other governments | 970,017 | - | - | 970,017 |
| ISCAP warrants payable | 5,000,000 | - | - | 5,000,000 |
| ISCAP accrued interest payable | 1,271 | - | - | 1,271 |
| ISCAP unamortized premium | 38,050 | - | - | 38,050 |
| Deferred revenue: | | | | |
| Succeeding year property tax | 28,059,294 | - | 4,320,079 | 32,379,373 |
| Other | 143,827 | - | - | 143,827 |
| Total liabilities | <u>42,449,669</u> | <u>1,100,347</u> | <u>4,918,245</u> | <u>48,468,261</u> |
| Fund balance: | | | | |
| Reserved for: | | | | |
| Prepays | 803,932 | 1,367 | 6,926 | 812,225 |
| Unreserved, reported in: | | | | |
| General fund | (123,922) | - | - | (123,922) |
| Capital projects fund | - | 34,723,892 | - | 34,723,892 |
| Nonmajor Special Revenue funds | - | - | 4,139,445 | 4,139,445 |
| Total fund balances | <u>680,010</u> | <u>34,725,259</u> | <u>4,146,371</u> | <u>39,551,640</u> |
| | <u>\$ 43,129,679</u> | <u>\$ 35,825,606</u> | <u>\$ 9,064,616</u> | <u>\$ 88,019,901</u> |

See notes to basic financial statements.

WATERLOO COMMUNITY SCHOOL DISTRICT

**Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2006**

| | |
|---|-----------------------------|
| Total governmental fund balances | \$ 39,551,640 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds. | 75,606,223 |
| Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds. | (138,540) |
| Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the governmental funds. | 143,827 |
| Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. | <u>(35,752,479)</u> |
| Net assets of governmental activities | <u><u>\$ 79,410,671</u></u> |

See notes to basic financial statements.

WATERLOO COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Year ended June 30, 2006

| | General | Capital Projects | Other Nonmajor Governmental Funds | Total Governmental Funds |
|--|-------------------|----------------------|--|--------------------------------|
| Revenues: | | | | |
| Property and other local taxes | \$ 27,462,326 | \$ 10,582,746 | \$ 4,042,333 | \$ 42,087,405 |
| Other local sources | 1,980,696 | 447,524 | 2,117,671 | 4,545,891 |
| Intermediate sources | 2,725 | - | - | 2,725 |
| State sources | 52,888,065 | - | 3,657 | 52,891,722 |
| Federal sources | 6,622,689 | 500,000 | 10,812 | 7,133,501 |
| Total revenues | 88,956,501 | 11,530,270 | 6,174,473 | 106,661,244 |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular instruction | 35,394,586 | - | 1,460,338 | 36,854,924 |
| Special instruction | 23,909,417 | - | - | 23,909,417 |
| Vocational instruction | 1,441,783 | - | - | 1,441,783 |
| Other instruction | 932,551 | - | 1,677,930 | 2,610,481 |
| | 61,678,337 | - | 3,138,268 | 64,816,605 |
| Support services: | | | | |
| Student services | 2,994,943 | - | 221 | 2,995,164 |
| Instructional staff services | 1,653,006 | - | 91,624 | 1,744,630 |
| General administration services | 969,935 | - | 97,777 | 1,067,712 |
| Building administration services | 5,575,310 | - | 81,069 | 5,656,379 |
| Business and central administration services | 2,819,415 | 447,834 | 41,705 | 3,308,954 |
| Operation and maintenance | 7,383,116 | - | 861,843 | 8,244,959 |
| Transportation services | 3,232,262 | - | 2,268 | 3,234,530 |
| Facilities acquisition and construction | - | 9,672,621 | 491,396 | 10,164,017 |
| AEA flowthrough | 3,558,701 | - | - | 3,558,701 |
| | 28,186,688 | 10,120,455 | 1,667,903 | 39,975,046 |
| Noninstructional programs | - | - | 5,264 | 5,264 |
| Total expenditures | 89,865,025 | 10,120,455 | 4,811,435 | 104,796,915 |
| Excess (deficiency) of revenues over (under) expenditures | (908,524) | 1,409,815 | 1,363,038 | 1,864,329 |
| Other financing uses: | | | | |
| Transfers out | (120,000) | (96,902) | - | (216,902) |
| Revenue bonds issued | - | 35,000,000 | - | 35,000,000 |
| Revenue bonds premium | - | 608,150 | - | 608,150 |
| Total other financing sources (uses) | (120,000) | 35,511,248 | - | 35,391,248 |
| Net change in fund balances | (1,028,524) | 36,921,063 | 1,363,038 | 37,255,577 |
| Fund balances beginning of year | 1,708,534 | (2,195,804) | 2,783,333 | 2,296,063 |
| Fund balances end of year | \$ 680,010 | \$ 34,725,259 | \$ 4,146,371 | \$ 39,551,640 |

See notes to basic financial statements.

WATERLOO COMMUNITY SCHOOL DISTRICT

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

Net change in fund balances - total governmental funds \$ 37,255,577

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

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

| | | |
|----------------------|--------------------|-----------|
| Capital outlays | \$ 10,218,696 | |
| Depreciation expense | <u>(2,725,242)</u> | 7,493,454 |

The net effect of the disposal of capital assets is to decrease net assets. (83,582)

Certain revenue not collected for several months after year end is not considered available in the governmental funds and is deferred. However, it is recorded as revenue in the statement of activities. (243,687)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments as follows:

| | | |
|---------------------|------------------|--------------|
| Issued | \$ (35,000,000) | |
| Premium on issuance | <u>(608,150)</u> | (35,608,150) |

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. (121,647)

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

| | |
|---|----------------|
| Compensated absences and early retirement | <u>449,545</u> |
|---|----------------|

Change in net assets of governmental activities \$ 9,141,510

WATERLOO COMMUNITY SCHOOL DISTRICT

**Statement of Net Assets
Proprietary Funds
June 30, 2006**

| Assets | School Nutrition | Day Care | Total Enterprise Funds |
|---|-----------------------------|-------------------|---------------------------------------|
| Current assets: | | | |
| Cash and pooled investments | \$ 869,031 | \$ 72,270 | \$ 941,301 |
| Accounts receivable | 59,306 | - | 59,306 |
| Inventories | 166,836 | - | 166,836 |
| Prepays | 36,115 | - | 36,115 |
| | <u>1,131,288</u> | <u>72,270</u> | <u>1,203,558</u> |
| Noncurrent assets: | | | |
| Capital assets, net of accumulated depreciation | <u>1,564,317</u> | <u>169,397</u> | <u>1,733,714</u> |
| | <u>2,695,605</u> | <u>241,667</u> | <u>2,937,272</u> |
| Liabilities | | | |
| Current liabilities: | | | |
| Accounts payable | 11,091 | 149 | 11,240 |
| Salaries and benefits payable | 7,382 | 39,906 | 47,288 |
| | <u>18,473</u> | <u>40,055</u> | <u>58,528</u> |
| | <u>18,473</u> | <u>40,055</u> | <u>58,528</u> |
| Net assets | | | |
| Invested in capital assets | 1,564,317 | 169,397 | 1,733,714 |
| Unrestricted | 1,112,815 | 32,215 | 1,145,030 |
| | <u>\$ 2,677,132</u> | <u>\$ 201,612</u> | <u>\$ 2,878,744</u> |

See notes to basic financial statements.

WATERLOO COMMUNITY SCHOOL DISTRICT

**Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
Year ended June 30, 2006**

| | School Nutrition | Day Care | Total Enterprise Funds |
|------------------------------------|---------------------|-------------------|------------------------------|
| Operating revenue: | | | |
| Local sources: | | | |
| Charges for service | <u>\$1,417,446</u> | <u>\$ 2,985</u> | <u>\$ 1,420,431</u> |
| Operating expenses: | | | |
| Salaries | 1,211,019 | 196,440 | 1,407,459 |
| Benefits | 587,167 | 99,691 | 686,858 |
| Purchased services | 351,122 | 4,401 | 355,523 |
| Supplies | 2,143,639 | 12,985 | 2,156,624 |
| Depreciation | 190,282 | 8,346 | 198,628 |
| Other | 44,039 | 300 | 44,339 |
| | <u>4,527,268</u> | <u>322,163</u> | <u>4,849,431</u> |
| Operating loss | <u>(3,109,822)</u> | <u>(319,178)</u> | <u>(3,429,000)</u> |
| Nonoperating revenue (expenses): | | | |
| State sources | 198,595 | - | 198,595 |
| Federal sources | 2,742,705 | 180,822 | 2,923,527 |
| Interest on investments | 37,701 | 386 | 38,087 |
| Loss on disposal of capital assets | - | (1,485) | (1,485) |
| Other | 5,000 | - | 5,000 |
| Total non-operating revenue | <u>2,984,001</u> | <u>179,723</u> | <u>3,163,724</u> |
| Loss before transfers | (125,821) | (139,455) | (265,276) |
| Transfers from other funds | <u>96,902</u> | <u>120,000</u> | <u>216,902</u> |
| Change in net assets | (28,919) | (19,455) | (48,374) |
| Net assets beginning of year | <u>2,706,051</u> | <u>221,067</u> | <u>2,927,118</u> |
| Net assets end of year | <u>\$2,677,132</u> | <u>\$ 201,612</u> | <u>\$ 2,878,744</u> |

See notes to basic financial statements.

WATERLOO COMMUNITY SCHOOL DISTRICT

**Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2006**

| | School Nutrition | Day Care | Total Enterprise Funds |
|---|-----------------------|---------------------|------------------------------|
| Cash flows from operating activities: | | | |
| Cash received from sale of lunches and breakfasts | \$ 1,417,536 | \$ 2,985 | \$ 1,420,521 |
| Cash payments to employees for services | (1,814,232) | (284,313) | (2,098,545) |
| Cash payments to suppliers for goods or services | (2,327,389) | (17,711) | (2,345,100) |
| Net cash used in operating activities | <u>(2,724,085)</u> | <u>(299,039)</u> | <u>(3,023,124)</u> |
| Cash flows from noncapital financing activities: | | | |
| State grants received | 198,595 | - | 198,595 |
| Federal grants received | 2,519,402 | 182,577 | 2,701,979 |
| Other | 5,000 | - | 5,000 |
| Transfers | - | 120,000 | 120,000 |
| Net cash provided by noncapital financing activities | <u>2,722,997</u> | <u>302,577</u> | <u>3,025,574</u> |
| Cash flows from capital and related financing activities: | | | |
| Acquisition of capital assets | <u>(148,590)</u> | <u>-</u> | <u>(148,590)</u> |
| Cash flows from investing activities: | | | |
| Interest on investments | <u>37,701</u> | <u>386</u> | <u>38,087</u> |
| Net increase (decrease) in cash and cash equivalents | (111,977) | 3,924 | (108,053) |
| Cash and cash equivalents at beginning of year | <u>981,008</u> | <u>68,346</u> | <u>1,049,354</u> |
| Cash and cash equivalents at end of year | <u>\$ 869,031</u> | <u>\$ 72,270</u> | <u>\$ 941,301</u> |
| Reconciliation of operating loss to net cash used in operating activities: | | | |
| Operating loss | \$ (3,109,822) | \$ (319,178) | \$ (3,429,000) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | | |
| Commodities used | 257,231 | - | 257,231 |
| Depreciation | 190,282 | 8,346 | 198,628 |
| Decrease in accounts receivable | 90 | - | 90 |
| (Increase) in inventories | (20,907) | - | (20,907) |
| (Increase) in prepaids | (5,322) | - | (5,322) |
| (Decrease) in accounts payable | (24,914) | (25) | (24,939) |
| Increase (Decrease) in salaries and benefits payable | <u>(10,723)</u> | <u>11,818</u> | <u>1,095</u> |
| Net cash used in operating activities | <u>\$ (2,724,085)</u> | <u>\$ (299,039)</u> | <u>\$ (3,023,124)</u> |

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received \$257,231 of federal commodities.

During the year ended June 30, 2006, the District received \$96,902 of equipment from the Capital Projects Fund.

See notes to basic financial statements.

WATERLOO COMMUNITY SCHOOL DISTRICT

**Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
June 30, 2006**

| | Agency |
|-----------------------------|-------------------------|
| Assets | |
| Cash and pooled investments | <u>\$ 24,650</u> |
| Total assets | <u><u>\$ 24,650</u></u> |
| | |
| Liabilities | |
| Liabilities: | |
| Due to other governments | <u>\$ 24,650</u> |
| Total liabilities | <u><u>\$ 24,650</u></u> |

See notes to basic financial statements.

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Basic Financial Statements

(1) Summary of Significant Accounting Policies

The Waterloo Community School District, which was incorporated under Chapter 274 of the State Code of Iowa, is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve with a student enrollment of 10,391. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreation courses. The geographic area served are the cities of Waterloo, Evansdale, Elk Run Heights, Raymond, Gilbertville and a portion of Cedar Falls, Iowa and the predominate agricultural territory in Black Hawk County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

A. Reporting Entity

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

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

B. Basis of Presentation

Government-wide financial statements - The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Interfund services provided and used are not eliminated in the process of consolidation. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

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

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

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Basic Financial Statements

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

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

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

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

The District reports the following major governmental funds:

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

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

The District reports the following major proprietary funds:

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

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

The District reports the following nonmajor governmental funds:

The Special Revenue Funds are used to account for the revenue sources that are legally restricted to expenditure for specific purposes. The District reports the following special revenue funds:

The Management Fund accounts for tort liability insurance premiums, unemployment compensation insurance claims and early retirement incentive payments.

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Basic Financial Statements

The Student Activity Fund accounts for money held by the District on behalf of the students who have raised these funds and are responsible for their disposition for cocurricular or extracurricular activities of the District.

The Physical Plant and Equipment Levy Fund accounts for resources used to pay for the purchase and improvement of sites, demolition work, special assessments and major building repairs. The fund is required to be accounted for as a special revenue fund by state statutes.

The District also reports a fiduciary fund. The District's fiduciary fund includes the following:

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

C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus". The Government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. The District's fiduciary fund, the agency fund, does not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

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

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

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Basic Financial Statements

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Basic Financial Statements

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

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 1/2% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

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

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

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

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

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

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

Land and construction in progress are not subject to depreciation.

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

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Basic Financial Statements

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

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

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

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

Fund Balances - In the governmental fund financial statements, reservations of fund balances are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

The District reserves the following fund balances:

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, total expenditures did not exceed the total certified budget, nor the legally-authorized budget. However, expenditures in the functional area of instruction exceeded the amount budgeted.

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Basic Financial Statements

F. Use of Estimates

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

(2) Cash and Cash Equivalents and Investments

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

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

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

| | |
|-----------------------|-------------------|
| | Amortized Cost |
| Diversified Portfolio | <u>\$ 4,068</u> |

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

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

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Basic Financial Statements

Custodial credit risk: For deposits, this is the risk that in the event of bank failure, the District's deposits may not be returned to it. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Chapter 12C of the Code of Iowa requires all District funds be deposited into an approved depository and be either insured or collateralized. As of June 30, 2006, the District had no deposits or investments subject to custodial credit risk.

(3) Iowa School Cash Anticipation Program (ISCAP)

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

A summary of the District's participation in ISCAP as of June 30, 2006 is as follows:

| Series | Warrant Date | Final Warrant Maturity | Investments | Accrued Interest Receivable | Warrants Payable | Accrued Interest Payable |
|----------|--------------|------------------------|--------------------|-----------------------------|--------------------|--------------------------|
| 2006-07A | 6/28/2006 | 6/28/2007 | <u>\$4,993,050</u> | <u>\$ 1,553</u> | <u>\$5,000,000</u> | <u>\$ 1,271</u> |

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006 is as follows:

The warrants bear an interest rate and the proceeds of the warrants are invested at an interest rate as shown below:

| Series | Interest Rates on Warrants | Interest Rates on Investments |
|----------|----------------------------|-------------------------------|
| 2006-07A | 4.50% | 5.6760% |

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Basic Financial Statements

(4) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|--|---------------------------------|----------------------|---------------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,106,733 | \$ 350,708 | \$ - | \$ 1,457,441 |
| Construction in progress | <u>11,906,231</u> | <u>9,488,188</u> | <u>9,899,532</u> | <u>11,494,887</u> |
| Total capital assets not being depreciated | <u>13,012,964</u> | <u>9,838,896</u> | <u>9,899,532</u> | <u>12,952,328</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 77,247,005 | 8,368,457 | - | 85,615,462 |
| Improvements other than buildings | 2,282,406 | 373,829 | - | 2,656,235 |
| Machinery and equipment | <u>17,923,092</u> | <u>1,537,046</u> | <u>436,837</u> | <u>19,023,301</u> |
| Total capital assets being depreciated | <u>97,452,503</u> | <u>10,279,332</u> | <u>436,837</u> | <u>107,294,998</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 29,723,135 | 1,466,648 | - | 31,189,783 |
| Improvements other than buildings | 1,068,464 | 73,743 | - | 1,142,207 |
| Machinery and equipment | <u>11,477,517</u> | <u>1,184,851</u> | <u>353,255</u> | <u>12,309,113</u> |
| Total accumulated depreciation | <u>42,269,116</u> | <u>2,725,242</u> | <u>353,255</u> | <u>44,641,103</u> |
| Total capital assets being depreciated, net | <u>55,183,387</u> | <u>7,554,090</u> | <u>83,582</u> | <u>62,653,895</u> |
| Governmental activities capital assets, net | <u>\$ 68,196,351</u> | <u>\$ 17,392,986</u> | <u>\$ 9,983,114</u> | <u>\$ 75,606,223</u> |
| Business type activities: | | | | |
| Furniture, equipment, vehicles | \$ 2,450,736 | \$ 245,493 | \$ 2,284 | \$ 2,693,945 |
| Less accumulated depreciation | <u>762,402</u> | <u>198,628</u> | <u>799</u> | <u>960,231</u> |
| Business type activities capital assets, net | <u>\$ 1,688,334</u> | <u>\$ 46,865</u> | <u>\$ 1,485</u> | <u>\$ 1,733,714</u> |

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Basic Financial Statements

The District began maintaining records of capital assets at cost July 1, 1997. A valuation of assets at historical costs was done in June 1997. The changes in the capital assets used in the operation of governmental funds by source for the year ended June 30, 2006 are as follows:

| | Balance June 30, 2005 | Increase | Decreases | Balance June 30, 2006 |
|-------------------------------|-----------------------------|----------------------|------------------------|-----------------------------|
| Pre July 1, 1997 | \$ 45,289,669 | \$ - | \$ - | \$ 45,289,669 |
| General fund revenue | 10,587,630 | 1,013,821 | (382,127) | 11,219,324 |
| Capital projects fund revenue | 50,363,745 | 19,006,726 | (9,950,444) | 59,420,027 |
| Special revenue funds revenue | 4,099,350 | 97,681 | (3,798) | 4,193,233 |
| Donations | 125,073 | - | - | 125,073 |
| | <u>\$110,465,467</u> | <u>\$ 20,118,228</u> | <u>\$ (10,336,369)</u> | <u>\$ 120,247,326</u> |

The changes in capital assets used in the operation of governmental funds by function and activity as of June 30, 2006 are as follows:

| Function and Activity | Balance June 30, 2005 | Increase | Decreases | Balance June 30, 2006 |
|-----------------------|-----------------------------|----------------------|------------------------|-----------------------------|
| Education | \$104,551,463 | \$ 19,825,749 | \$ (10,181,071) | \$ 114,196,141 |
| Transportation | 239,661 | - | - | 239,661 |
| Maintenance | 3,183,003 | 138,002 | (31,900) | 3,289,105 |
| Administration | 2,491,340 | 154,477 | (123,398) | 2,522,419 |
| | <u>\$110,465,467</u> | <u>\$ 20,118,228</u> | <u>\$ (10,336,369)</u> | <u>\$ 120,247,326</u> |

The capital assets used in the operation of governmental funds by function and activity as of June 30, 2006 are as follows:

| Function and Activity | Construction in Progress | Land and Site Improvements | Buildings | Machinery and Equipment | Total |
|-----------------------|-----------------------------|----------------------------------|----------------------|-------------------------------|-----------------------|
| Education | \$ 11,494,887 | \$ 3,592,640 | \$ 84,718,100 | \$ 14,390,514 | \$ 114,196,141 |
| Transportation | - | 7,000 | 52,000 | 180,661 | 239,661 |
| Maintenance | - | 458,636 | 497,704 | 2,332,765 | 3,289,105 |
| Administration | - | 55,400 | 347,658 | 2,119,361 | 2,522,419 |
| | <u>\$ 11,494,887</u> | <u>\$ 4,113,676</u> | <u>\$ 85,615,462</u> | <u>\$ 19,023,301</u> | <u>\$ 120,247,326</u> |

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Basic Financial Statements

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

| | |
|------------|------------|
| Regular | \$ 380,631 |
| Special | 75,870 |
| Vocational | 7,395 |
| Other | 232,892 |

Support services:

| | |
|---------------------------|---------|
| Student | 6,184 |
| Instructional staff | 84,681 |
| General administration | 18,152 |
| School administration | 18,579 |
| Business | 2,420 |
| Operation and maintenance | 288,473 |
| Transportation | 2,130 |
| Central | 67,444 |

1,184,851

Unallocated depreciation

1,540,391

Total governmental activities depreciation expense

\$ 2,725,242

Business type activities:

| | |
|------------------|------------|
| School nutrition | \$ 190,282 |
| Day care | 8,346 |

Total business type activities depreciation expense

\$ 198,628

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

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

| | Balance Beginning of Year | Additions | Reductions | Balance End of Year | Due Within One Year |
|-----------------------|---------------------------------|-----------------------------|--------------------------|-----------------------------|---------------------------|
| Notes payable premium | \$ - | \$ 35,000,000 | \$ - | \$ 35,000,000 | \$ - |
| | - | 608,150 | 16,893 | 591,257 | - |
| | - | 35,608,150 | 16,893 | 35,591,257 | - |
| Compensated absences | 190,767 | - | 29,545 | 161,222 | 161,222 |
| Early retirement | 420,000 | - | 420,000 | - | - |
| Total | <u><u>\$ 610,767</u></u> | <u><u>\$ 35,608,150</u></u> | <u><u>\$ 466,438</u></u> | <u><u>\$ 35,752,479</u></u> | <u><u>\$ 161,222</u></u> |

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Basic Financial Statements

Details of the District's June 30, 2006 local option sales and services tax bond and revenue anticipation notes indebtedness are as follows:

| Year Ending June 30, | Interest Rate | Bond Issue June 1, 2006 | | Total |
|-------------------------|---------------|-------------------------|---------------------|----------------------|
| | | Principal | Interest | |
| 2007 | | \$ - | \$ 1,662,500 | \$ 1,662,500 |
| 2008 | | - | 1,662,500 | \$ 1,662,500 |
| 2009 | 4.75% | <u>35,000,000</u> | <u>1,662,500</u> | <u>36,662,500</u> |
| Total | | <u>\$ 35,000,000</u> | <u>\$ 4,987,500</u> | <u>\$ 39,987,500</u> |

The School Infrastructure Local Option Sales and Services Tax Bond and Revenue Anticipation Notes, Series 2006, were issued to (i) finance the construction of certain school facilities and related capital improvements in the District and (ii) pay the costs of issuance of the Notes. The Notes are payable only from (1) the proceeds of the sale of the Notes, (2) the proceeds of any School Infrastructure Local Option Sales and Services Tax Bonds (if issued), and (3) local option sales and services tax revenues received by the District under Iowa Code Chapter 423E, each of which are pledged to the repayment of the Notes. The Notes are not general obligations of the District. However, the debt is subject to the constitutional debt limitation of the District.

The District uses short-term debt to cover short-term cash flow needs caused by the uneven flow of revenues from property taxes and state foundation aid. Under lines of credit which expired January 31, 2006 and June 30, 2006, the District borrowed and repaid \$13,429,560 during the year ended June 30, 2006.

The District did not exceed its legal debt margin at June 30, 2006 as follows:

| | |
|--|-------------------------|
| Total assessed valuation | <u>\$ 3,040,679,531</u> |
| Debt limit, 5% of total assessed valuation | \$ 152,033,977 |
| Amount of debt applicable to debt limit, total general obligation bonded debt | <u>35,000,000</u> |
| Excess of debt limit over bonded debt outstanding, legal debt margin | <u>\$ 117,033,977</u> |

(6) Pension and Retirement Benefits

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

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Basic Financial Statements

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. District's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$2,964,708, \$2,748,831, and \$2,580,954, respectively, equal to required contributions for each year.

(7) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and education services provided through the area education agency. The District's actual amount for this purpose totaled \$3,558,701 for the year ended June 30, 2006, and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(8) Commitments

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

The District has entered into various contracts totaling \$23,438,964 for three major projects which are primarily being funded by the one cent local option sales and service tax. The building projects are the Lowell Elementary School, Kingsley Elementary School and the APoyner Elementary School. At June 30, 2006, \$10,924,737 of the contracts were completed. The remaining amounts of the contracts will be paid as the work on the projects progresses.

(9) Contingencies and Risk Management

The District is involved in various claims and lawsuits against the District that arise in the normal course of operations, many of which are covered by insurance. The outcome and eventual liability of the District, if any, from these claims and any unasserted claims is not known at this time. It has been the District's experience that such claims are settled for amounts substantially less than claimed amounts. District management estimates that the potential claims against the District, not covered by various insurance policies, would not materially affect the financial condition of the District. The District is also exposed to various risks of loss related to torts; theft; damage to and destruction of assets; error and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for all risks of loss, including Workers' Compensation and employee health and accident insurance. Third -party coverage is currently maintained for individual workers' compensation claims in excess of \$100,000 and all other potential losses. There has been no reduction in insurance coverage from the prior year. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Basic Financial Statements

(10) Retirement Plans and Postemployment Benefits Other than Pension Benefits

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

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

The District adopted a one-time temporary supplemental early retirement incentive for teachers who applied for early retirement no later than March 15, 2004. The benefit amount is \$30,000 per teacher and final payment is due in July, 2006.

Approximately 42 employees were participating in the early retirement plans as of June 30, 2006. Early retirement benefits paid to employees during the year were \$773,713.

(11) Transfers Within the Reporting Entity

Internal transfers occurred during the normal course of District business operations.

Interfund transfers were as follows:

| | Transfer In | | Total |
|-----------------------|---|--------------------------------|-------------------|
| | School Nutrition Enterprise Fund | Day Care Enterprise Fund | |
| Transfer Out: | | | |
| General fund | \$ - | \$ 120,000 | \$ 120,000 |
| Capital projects fund | 96,902 | - | 96,902 |
| Total | <u>\$ 96,902</u> | <u>\$ 120,000</u> | <u>\$ 216,902</u> |

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Basic Financial Statements

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

(12) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, expenditures in the instruction area exceeded the amount budgeted. The District did not exceed the total certified budget nor the legally-authorized budget.

(13) Deficit Fund Equity

The general fund had an unreserved deficit fund balance of \$123,922 at June 30, 2006. The District plans to update budget control procedures and make changes to the 2006-07 budget in order to eliminate the deficit.

Required Supplementary Information

WATERLOO COMMUNITY SCHOOL DISTRICT

**Budgetary Comparison Schedule - Budget and Actual -
All Governmental Funds and Proprietary Fund
Required Supplementary Information
Year ended June 30, 2006**

| | Governmental Fund Types Actual | Proprietary Fund Type Actual |
|--|--------------------------------------|------------------------------------|
| Revenues: | | |
| Local sources | \$ 46,633,296 | \$ 1,462,033 |
| Intermediate sources | 2,725 | - |
| State sources | 52,891,722 | 198,595 |
| Federal sources | 7,133,501 | 2,923,527 |
| Total revenues | <u>106,661,244</u> | <u>4,584,155</u> |
| Expenditures/Expenses: | | |
| Instruction | 64,816,605 | - |
| Support services | 26,252,328 | - |
| Noninstructional programs | 5,264 | 4,849,431 |
| Other expenditures | 13,722,718 | - |
| Total expenditures/expenses | <u>104,796,915</u> | <u>4,849,431</u> |
| Excess (deficiency) of revenues over (under) expenditures/expenses | 1,864,329 | (265,276) |
| Other financing sources, net | <u>35,391,248</u> | <u>216,902</u> |
| Net change in fund balance | <u>\$ 37,255,577</u> | <u>\$ (48,374)</u> |

See note to required supplementary information.

| Total Actual | Budgeted Amounts | | Final to Actual Variance- Positive (Negative) |
|----------------------|--------------------|-----------------------|---|
| | Original | Final | |
| \$ 48,095,329 | \$ 46,647,002 | \$ 46,647,002 | \$ 1,448,327 |
| 2,725 | - | - | 2,725 |
| 53,090,317 | 53,562,264 | 53,562,264 | (471,947) |
| 10,057,028 | 7,780,000 | 7,780,000 | 2,277,028 |
| <u>111,245,399</u> | <u>107,989,266</u> | <u>107,989,266</u> | <u>3,256,133</u> |
| 64,816,605 | 61,858,000 | 64,500,000 | (316,605) |
| 26,252,328 | 28,003,000 | 28,003,000 | 1,750,672 |
| 4,854,695 | 4,275,000 | 5,000,000 | 145,305 |
| 13,722,718 | 12,942,623 | 16,000,000 | 2,277,282 |
| <u>109,646,346</u> | <u>107,078,623</u> | <u>113,503,000</u> | <u>3,856,654</u> |
| 1,599,053 | 910,643 | (5,513,734) | 7,112,787 |
| <u>35,608,150</u> | <u>-</u> | <u>-</u> | <u>35,608,150</u> |
| <u>\$ 37,207,203</u> | <u>\$ 910,643</u> | <u>\$ (5,513,734)</u> | <u>\$ 42,720,937</u> |

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting June 30, 2006

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, noninstructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that district expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$6,424,377.

During the year ended June 30, 2006, expenditures in the instruction functional area exceeded the amount budgeted.

Other Supplementary Information

WATERLOO COMMUNITY SCHOOL DISTRICT

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006**

| | Special Revenue | | | Total |
|---------------------------------------|---------------------|---------------------|--|---------------------|
| | Management Levy | Student Activity | Physical Plant and Equipment Levy | |
| Assets | | | | |
| Cash and pooled investments | \$ 1,479,864 | \$ 978,077 | \$ 2,200,360 | \$ 4,658,301 |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | 30,122 | - | 27,186 | 57,308 |
| Succeeding year | 2,243,040 | - | 2,077,039 | 4,320,079 |
| Accounts | - | 22,002 | - | 22,002 |
| Prepays | 6,926 | - | - | 6,926 |
| | <u>\$ 3,759,952</u> | <u>\$ 1,000,079</u> | <u>\$ 4,304,585</u> | <u>\$ 9,064,616</u> |
| Total assets | | | | |
| | <u>\$ 3,759,952</u> | <u>\$ 1,000,079</u> | <u>\$ 4,304,585</u> | <u>\$ 9,064,616</u> |
| Liabilities and Fund Equity | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 10,059 | \$ 57,458 | \$ 120,649 | \$ 188,166 |
| Salaries and benefits payable | 410,000 | - | - | 410,000 |
| Deferred revenue: | | | | |
| Succeeding year property tax | 2,243,040 | - | 2,077,039 | 4,320,079 |
| Total liabilities | <u>2,663,099</u> | <u>57,458</u> | <u>2,197,688</u> | <u>4,918,245</u> |
| Fund equity: | | | | |
| Reserved for: | | | | |
| Prepays | 6,926 | - | - | 6,926 |
| Unreserved, undesignated fund balance | 1,089,927 | 942,621 | 2,106,897 | 4,139,445 |
| Total fund balances | <u>1,096,853</u> | <u>942,621</u> | <u>2,106,897</u> | <u>4,146,371</u> |
| Total liabilities and fund equity | <u>\$ 3,759,952</u> | <u>\$ 1,000,079</u> | <u>\$ 4,304,585</u> | <u>\$ 9,064,616</u> |

See accompanying independent auditors' report.

WATERLOO COMMUNITY SCHOOL DISTRICT

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

| | Special Revenue | | | Total |
|---|---------------------|---------------------|--|---------------------|
| | Management Levy | Student Activity | Physical Plant and Equipment Levy | |
| Revenues: | | | | |
| Property and other local taxes | \$ 2,132,276 | \$ - | \$ 1,910,057 | \$ 4,042,333 |
| Other local sources | 158,981 | 1,781,382 | 177,308 | 2,117,671 |
| State sources | 1,930 | - | 1,727 | 3,657 |
| Federal sources | - | - | 10,812 | 10,812 |
| | <u>2,293,187</u> | <u>1,781,382</u> | <u>2,099,904</u> | <u>6,174,473</u> |
| Total revenues | | | | |
| | <u>2,293,187</u> | <u>1,781,382</u> | <u>2,099,904</u> | <u>6,174,473</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular instruction | 1,460,338 | - | - | 1,460,338 |
| Other instruction | - | 1,677,930 | - | 1,677,930 |
| Support services: | | | | |
| Student services | 221 | - | - | 221 |
| Instructional staff services | 91,624 | - | - | 91,624 |
| General administration services | 97,777 | - | - | 97,777 |
| Building administration services | 81,069 | - | - | 81,069 |
| Business and central administration services | 39,698 | 2,007 | - | 41,705 |
| Operation and maintenance | 513,634 | - | 348,209 | 861,843 |
| Transportation services | 2,002 | 266 | - | 2,268 |
| Facilities acquisition and construction | - | - | 491,396 | 491,396 |
| Noninstructional programs | 5,264 | - | - | 5,264 |
| | <u>2,291,627</u> | <u>1,680,203</u> | <u>839,605</u> | <u>4,811,435</u> |
| Total expenditures | | | | |
| | <u>2,291,627</u> | <u>1,680,203</u> | <u>839,605</u> | <u>4,811,435</u> |
| Excess of revenues over expenditures | 1,560 | 101,179 | 1,260,299 | 1,363,038 |
| Fund balances beginning of year | <u>1,095,293</u> | <u>841,442</u> | <u>846,598</u> | <u>2,783,333</u> |
| Fund balances end of year | <u>\$ 1,096,853</u> | <u>\$ 942,621</u> | <u>\$ 2,106,897</u> | <u>\$ 4,146,371</u> |

See accompanying independent auditors' report.

WATERLOO COMMUNITY SCHOOL DISTRICT

**Schedule of Changes in Fiduciary Assets and Liabilities -
Agency Fund
Year ended June 30, 2006**

| | Balance Beginning of Year | Additions | Deductions | Balance End of Year |
|--------------------------|---------------------------------|-------------------|-------------------|---------------------------|
| Assets | | | | |
| Cash | <u>\$ 36,769</u> | <u>\$ 698,513</u> | <u>\$ 710,632</u> | <u>\$ 24,650</u> |
| Total assets | <u>\$ 36,769</u> | <u>\$ 698,513</u> | <u>\$ 710,632</u> | <u>\$ 24,650</u> |
| Liabilities | | | | |
| Accounts payable | \$ 3,221 | \$ - | \$ 3,221 | \$ - |
| Due to other governments | <u>33,548</u> | <u>698,513</u> | <u>707,411</u> | <u>24,650</u> |
| Total liabilities | <u>\$ 36,769</u> | <u>\$ 698,513</u> | <u>\$ 710,632</u> | <u>\$ 24,650</u> |

See accompanying independent auditors' report.

WATERLOO COMMUNITY SCHOOL DISTRICT

**Schedule of Changes in Special Revenue Fund, Student Activity Accounts
Year ended June 30, 2006**

| Account | Balance Beginning of Year | Revenues and Interfund Transfers | Expenditures | Balance End of Year |
|----------------------------|---------------------------------|--|---------------------|---------------------------|
| High Schools: | | | | |
| East | \$ 95,234 | \$ 335,863 | \$ 347,449 | \$ 83,648 |
| West | 310,754 | 755,573 | 730,965 | 335,362 |
| Expo | 24,100 | 18,132 | 22,437 | 19,795 |
| Middle Schools: | | | | |
| Central | 79,527 | 67,295 | 64,004 | 82,818 |
| Hoover | 56,537 | 107,524 | 104,144 | 59,917 |
| Logan | 10,836 | 32,615 | 28,609 | 14,842 |
| Bunger | 40,870 | 57,805 | 61,295 | 37,380 |
| Elementary Schools: | | | | |
| Black Hawk | 2,903 | 4,085 | 2,876 | 4,112 |
| Cunningham | 17,127 | 40,823 | 40,450 | 17,500 |
| Edison | 22,446 | 37,218 | 43,806 | 15,858 |
| Elk Run | 16,652 | 24,549 | 25,758 | 15,443 |
| Irving | 11,454 | 10,648 | 12,169 | 9,933 |
| Jewett | 21,684 | 17,851 | 13,990 | 25,545 |
| Kingsley | - | 13,699 | - | 13,699 |
| Kittrell | 31,688 | 12,634 | 18,424 | 25,898 |
| Lincoln | 9,432 | 5,298 | 3,364 | 11,366 |
| Longfellow | 11,411 | 13,608 | 13,834 | 11,185 |
| Lowell | 24,359 | 31,926 | 31,640 | 24,645 |
| Orange | 21,417 | 38,395 | 38,746 | 21,066 |
| McKinstry | 17,617 | 48,961 | 27,725 | 38,853 |
| Lou Henry | 10,364 | 70,869 | 34,624 | 46,609 |
| Other | 5,030 | 36,011 | 13,894 | 27,147 |
| Total | \$ 841,442 | \$ 1,781,382 | \$ 1,680,203 | \$ 942,621 |

See accompanying independent auditors' report.

WATERLOO COMMUNITY SCHOOL DISTRICT

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

| | Modified Accrual Basis | | | |
|--|------------------------|-----------------------|----------------------|-----------------------|
| | Years ended June 30, | | | |
| | 2006 | 2005 | 2004 | 2003 |
| Revenues: | | | | |
| Local sources: | | | | |
| Local tax | \$ 42,087,405 | \$ 40,599,831 | \$ 38,456,247 | \$ 37,037,974 |
| Other | 4,545,891 | 3,374,140 | 2,876,064 | 3,832,274 |
| Intermediate sources | 2,725 | 131,022 | 138,278 | 128,436 |
| State sources | 52,891,722 | 49,774,462 | 48,722,481 | 48,218,332 |
| Federal sources | 7,133,501 | 7,724,946 | 7,048,560 | 7,982,317 |
| Total revenues | \$ 106,661,244 | \$ 101,604,401 | \$ 97,241,630 | \$ 97,199,333 |
| Expenditures: | | | | |
| Instruction: | | | | |
| Regular instruction | \$ 36,854,924 | \$ 36,885,149 | \$ 36,547,236 | \$ 35,271,153 |
| Special instruction | 23,909,417 | 20,432,358 | 18,270,906 | 18,307,605 |
| Vocational instruction | 1,441,783 | 1,225,442 | 1,281,012 | 1,337,424 |
| Other instruction | 2,610,481 | 3,065,679 | 2,531,422 | 3,149,408 |
| Support services: | | | | |
| Student services | 2,995,164 | 2,950,960 | 2,932,722 | 2,370,912 |
| Instructional staff services | 1,744,630 | 2,650,565 | 2,175,810 | 2,416,102 |
| General administration services | 1,067,712 | 910,675 | 972,748 | 987,520 |
| Building administration services | 5,656,379 | 4,851,254 | 4,728,914 | 4,513,620 |
| Business and central administration services | 3,308,954 | 2,801,451 | 2,303,284 | 2,481,013 |
| Operation and maintenance | 8,244,959 | 9,447,732 | 10,269,848 | 9,429,858 |
| Transportation services | 3,234,530 | 2,742,655 | 2,634,361 | 2,380,679 |
| Central support services | - | - | - | - |
| Non-instructional programs | 5,264 | 99,458 | 169,691 | 203,213 |
| Other expenses: | | | | |
| Facilities acquisition | 10,164,017 | 13,136,293 | 11,132,215 | 8,252,288 |
| Long-term debt: | | | | |
| Principal | - | - | - | 10,150,000 |
| Interest and other charges | - | - | - | 507,800 |
| AEA flowthrough | 3,558,701 | 3,388,142 | 3,360,178 | 3,521,789 |
| Total expenditures | \$ 104,796,915 | \$ 104,587,813 | \$ 99,310,347 | \$ 105,280,384 |

See accompanying independent auditors' report.

WATERLOO COMMUNITY SCHOOL DISTRICT

**Schedule of Expenditures of Federal Awards
Year ended June 30, 2006**

| Grantor/Program | CFDA Number | Grant Number | Expenditures |
|---|----------------|-----------------|------------------|
| U.S. Department of Agriculture:: | | | |
| Indirect: | | | |
| Iowa Department of Education: | | | |
| Food Distribution (Noncash) | 10.550 | N/A | \$ 257,231 |
| Child Nutrition Cluster Programs: | | | |
| School Breakfast Program | 10.553 | N/A | 435,064 |
| National School Lunch Program | 10.555 | N/A | 1,997,123 |
| Summer Food Service Program for Children | 10.559 | N/A | 53,287 |
| | | | <u>2,485,474</u> |
| Cooperative Forestry Assistance | 10.664 | N/A | <u>2,194</u> |
| Total U.S. Department of Agriculture | | | <u>2,744,899</u> |
| U.S. Department of Education: | | | |
| Indirect: | | | |
| Iowa Department of Education: | | | |
| Title I Grants to Local Educational Agencies | 84.010 | 6795-MC-0 | 727 |
| Title I Grants to Local Educational Agencies | 84.010 | 6795-M-00 | 4,177 |
| Title I Grants to Local Educational Agencies | 84.010 | 6795-SI-06 | 20,644 |
| Title I Grants to Local Educational Agencies | 84.010 | 6795-GC-00 | 401,189 |
| Title I Grants to Local Educational Agencies | 84.010 | 6795-G-00 | 2,222,008 |
| Title I Grants to Local Educational Agencies | 84.010 | 6795-D-00 | 248 |
| Title I Grants to Local Educational Agencies | 84.010 | 6795-M-00 | 135,593 |
| | | | <u>2,784,586</u> |
| State Grants for Innovative Programs | 84.298 | N/A | <u>43,169</u> |
| Safe and Drug-Free Schools and Communities - State Grants | 84.186 | N/A | <u>107,560</u> |
| Vocational Education - Basic Grants to States | 84.048 | N/A | <u>199,787</u> |
| Fund for the Improvement of Education | 84.215 | N/A | <u>554,469</u> |
| Special Education - State Personnel Development | 84.323 | N/A | <u>50</u> |
| English Language Acquisition Grants | 84.365 | N/A | <u>216,907</u> |
| Grants for State Assessments and Related Activities | 84.369 | N/A | <u>78,000</u> |
| Improving Teacher Quality State Grants | 84.367 | N/A | <u>954,635</u> |
| Advanced Placement Program | 84.330 | N/A | <u>1,872</u> |
| Hurricane Education Recovery | 84.938 | N/A | <u>108,399</u> |

(continued)

WATERLOO COMMUNITY SCHOOL DISTRICT

**Schedule of Expenditures of Federal Awards
Year ended June 30, 2006**

| Grantor/Program | CFDA Number | Grant Number | Expenditures |
|--|----------------|-----------------|------------------|
| U.S. Department of Education (continued): | | | |
| Indirect (continued): | | | |
| Iowa Department of Education: | | | |
| Rehabilitation Services-Vocational Rehabilitation Grants to States | 84.126 | N/A | <u>87,276</u> |
| Grant Wood AEA: | | | |
| Education Technology State Grants | 84.318 | N/A | <u>81,450</u> |
| Area Education Agency 267: | | | |
| Special Education - Grants to States | 84.027 | N/A | <u>725,919</u> |
| Pathways Behavioral Services, Inc.: | | | |
| Safe and Drug-Free Schools and Communities - State Grants | 84.186 | N/A | <u>3,972</u> |
| School Administrators of Iowa: | | | |
| Parental Assistance Centers | 84.310 | N/A | <u>36,007</u> |
| Direct: | | | |
| Twenty-First Century Community Learning Centers | 84.287 | N/A | <u>115,893</u> |
| Safe and Drug-Free Schools and Communities-National Programs | 84.184 | N/A | <u>33,574</u> |
| Fund for the Improvement of Education | 84.215 | V215L042043 | <u>301,449</u> |
| Total U.S. Department of Education | | | <u>6,434,974</u> |
| U.S. Department of Health and Human Services:: | | | |
| Indirect: | | | |
| Iowa Department of Education: | | | |
| Refugee and Entrant Assistance - Discretionary Grants | 93.576 | N/A | <u>28,032</u> |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund | 93.596 | N/A | <u>54,504</u> |
| Tri-County Child & Family Development Council, Inc: | | | |
| Head Start | 93.600 | N/A | <u>514,810</u> |
| Department of Public Health: | | | |
| Centers for Disease Control and Prevention Investigations and Technical Assistance | 93.283 | N/A | <u>1,010</u> |
| Total U.S. Department of Health and Human Services | | | <u>598,356</u> |

(continued)

WATERLOO COMMUNITY SCHOOL DISTRICT

**Schedule of Expenditures of Federal Awards
Year ended June 30, 2006**

| Grantor/Program | CFDA Number | Grant Number | Expenditures |
|---|----------------|-----------------|--------------|
| Corporation for National and Community Service: | | | |
| Indirect: | | | |
| Iowa Department of Education: | | | |
| Learn and Serve America School and Community Based Programs | 94.004 | N/A | 172 |
| Total Corporation for National and Community Service | | | 172 |
| U.S. Department of Justice: | | | |
| Indirect: | | | |
| City of Waterloo, Iowa: | | | |
| Public Safety Partnership and Community Policing Grants | 16.710 | N/A | 46,118 |
| Direct: | | | |
| JROTC | Unknown | N/A | 105,663 |
| Total U.S. Department of Justice | | | 151,781 |
| Total | | | \$ 9,930,182 |

- (1) Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Waterloo Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditors' report.

Internal Controls and Compliance

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

To the Board of Education
Waterloo Community School District

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Waterloo Community School District, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above are not material weaknesses. Prior year reportable conditions have all been resolved except for II-A-06.

Compliance

As part of obtaining reasonable assurance about whether Waterloo Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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. However, we noted certain immaterial instances of noncompliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved except for IV-A-06.

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

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

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

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

October 25, 2006

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

To the Board of Education
Waterloo Community School District

Compliance

We have audited the compliance of Waterloo Community School District, Iowa, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Waterloo Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Waterloo Community School District's management. Our responsibility is to express an opinion on Waterloo Community School District's compliance based on our audit.

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

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

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be a reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Waterloo Community School District's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grant agreements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items III-A-06 and III-B-06.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions described above are not material weaknesses.

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

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

October 25, 2006

WATERLOO COMMUNITY SCHOOL DISTRICT

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

Part I: Summary of the Independent Auditors' Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including no material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including no material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) Audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a) are reported in this schedule.
- (g) Major programs were as follows:
 - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
 - CFDA Number 84.215 - Funds for the Improvement of Education
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Waterloo Community School District did qualify as a low-risk auditee.

WATERLOO COMMUNITY SCHOOL DISTRICT

**Schedule of Findings and Questioned Costs
Year ended June 30, 2006**

Part II: Findings Related to the Financial Statements:

REPORTABLE CONDITION:

II-A-06 Fixed Asset Management - The District has adopted a fixed asset management system; however, not all of the adopted procedures are being followed. Particularly, fixed asset disposals and transfers are not always reported on the appropriate forms which creates difficulties in reconciling the fixed asset inventory to actual assets located in District facilities.

Recommendation - In order to improve the District's oversight of fixed assets, the provisions of the fixed asset management system need to be reviewed and followed as they pertain to the disposal and transfer of fixed assets. Although communications are forwarded to the schools within the District requesting updated fixed asset information, including transfers and disposals, the schools do not always respond to the requests. The District needs to follow up periodically with each school to coordinate fixed asset information with each schools' representative responsible for reporting fixed asset disposals and transfers.

Response - Business Office procedures and building communications will be more closely monitored to ensure more accurate information.

Conclusion - Response accepted.

II-B-06 Invoice Coding - Three payments for expendable supplies totaling \$1,373 were improperly coded to the capital projects fund. Nine payments to vendors totaling \$1,545 for various expenditures were improperly coded to the management fund. These payments were properly reclassified to the general fund at the time of the discovery of the misclassifications.

Recommendation - The District should ensure that all expenditures are coded to the proper fund by the individual responsible for coding the expenditures.

Response - Business Office procedures are being updated to include additional review of invoice coding.

Conclusion - Response accepted.

WATERLOO COMMUNITY SCHOOL DISTRICT

**Schedule of Findings and Questioned Costs
Year ended June 30, 2006**

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

CFDA Number 84.010: Title 1
Federal Award Year: 2006
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-06 Title 1 Equipment Management - As reported at Finding II-A-06, fixed asset disposals are not properly accounted for by the District. The Title 1 fixed asset disposal records were not adequately documented and incorrect information was submitted to the Iowa Department of Education pertaining to the District's Title 1 fixed asset disposals.

Recommendation - As recommended in Finding II-A-06, the provisions of the fixed asset management system need to be reviewed and followed regarding the disposal of Title 1 fixed assets. The reporting of fixed asset disposals should be coordinated with the Title 1 office and the fixed asset manager in the business office.

Response - Business Office procedures are being updated to review all fixed asset disposals.

Conclusion - Response accepted.

(continued)

WATERLOO COMMUNITY SCHOOL DISTRICT

**Schedule of Findings and Questioned Costs
Year ended June 30, 2006**

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

CFDA Number 84.215: Smaller Learning Communities
Federal Award Year: 2006
U.S. Department of Education
Directly from United States Department of Education

III-B-06 Grant Fund Draw Downs - Grant funds exceeding actual District expenditures in the amount of \$39,754 were drawn down from the United States Treasury during the year. The excess draw down was due to a miscalculation on a spreadsheet used to track cumulative expenditures and draw downs for the grant. The excess draw down was discovered when the fiscal year reconciliation of federal program revenues and expenses was prepared. The cumulative draw down amount was corrected by reducing the next scheduled draw down by \$39,754.

Recommendation - Computerized spreadsheets should be updated and formulas reviewed each time they are used. An individual with knowledge of the grant should review the amount requested for draw down prior to submitting the request for grant funds.

Response - Business Office procedures are being updated for all District grant activity in regard to filing accurate claims.

Conclusion - Response accepted.

(continued)

WATERLOO COMMUNITY SCHOOL DISTRICT

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

Part IV: Other Findings Related to Required Statutory Reporting

- IV-A-06 Certified Budget - Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the instruction program area.
- Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.
- Response - The District did not exceed its total spending authority for the year ended June 30, 2006 and will amend its budget by functional area as required to be in compliance with the Code of Iowa.
- Conclusion - Response accepted.
- IV-B-06 Questionable Expenditures - No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- IV-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-D-06 Business Transactions - No business transactions between the District and District officials or employees were noted.
- IV-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-06 Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.
- IV-G-06 Certified Enrollment - We noted no variance in the basic enrollment data certified to the Department of Education.

- IV-H-06 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- IV-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- IV-J-06 Financial Condition - The District's unreserved general fund deficit, as shown on the balance sheet governmental funds, was \$123,922 at June 30, 2006.

Recommendation - The District needs to seek alternatives in eliminating the deficit.

Response - The District has made changes in the 2006-07 budget to raise revenues by increasing the instructional support levy and to decrease expenditures by reducing staffing levels by 20 FTE. Budget control procedures are also being updated

Conclusion - Response accepted.