
WATERLOO COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2007



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

WATERLOO COMMUNITY SCHOOL DISTRICT

Table of Contents	Page
Officials	1
Independent Auditors' Report	2-3
Management's Discussion and Analysis (MD&A)	4-14
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	15
Statement of Activities	16-17
Governmental Fund Financial Statements:	
Balance Sheet	18
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	19
Statement of Revenues, Expenditures and Changes in Fund Balances	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Proprietary Fund Financial Statements:	
Statement of Net Assets	22
Statement of Revenues, Expenses, and Changes in Net Assets	23
Statement of Cash Flows	24
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Assets and Liabilities	25
Notes to Basic Financial Statements	26-40
Required Supplementary Information:	
Budgetary Comparison Schedule-Budget and Actual- All Governmental Funds and Proprietary Fund	41
Notes to Required Supplementary Information - Budgetary Reporting	42
Other Supplementary Information:	
Nonmajor Governmental Funds:	
Combining Balance Sheet	43
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	44
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	45
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	46
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	47
Schedule of Expenditures of Federal Awards	48-50
Internal Controls and Compliance:	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	51-52
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	53-54
Schedule of Findings and Questioned Costs	55-59

WATERLOO COMMUNITY SCHOOL DISTRICT

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2006 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
Board of Education (After September 2006 Election)		
Pam Miller	President	2007
Bernice Richard	Vice-President	2009
Don Hanson	Board Member	2007
Barb Opheim	Board Member	2008
Lyle Schmitt	Board Member	2008
Judy Fossell	Board Member	2009
Michael Kindschi	Board Member	2009
School Officials		
Dr. Dewitt Jones	Superintendent	2007
Sharon Miller	District Secretary	2007
Michael Coughlin	District Treasurer	2007
Steve Weidner	Attorney	Indefinite
Edgar Bittle	Attorney	Indefinite

Waterloo Community School District



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

Independent Auditors' Report

To the Board of Education of the
Waterloo Community School District

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Waterloo Community School District, Iowa, as of and for the year ended June 30, 2007, 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, 2007, 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 January 28, 2008 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 14 and 41 through 42 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, 2006 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included on pages 43 through 50, 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.

January 28, 2008

Management Discussion and Analysis For the Year Ended June 30, 2007

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, 2007. The analysis focuses on school district financial performance as a whole. We encourage readers to consider the information presented here in conjunction with additional information in the District's financial statements, which immediately follow this section.

Financial Highlights

- The assets of the Waterloo Community School District exceeded its liabilities at the close of the most recent fiscal year by \$91,609,525 (net assets). Of this amount \$2,269,641 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The General Fund cash balance increased \$2,391,418 and the General Fund balance increased \$1,861,500.
- The State of Iowa granted a 4% allowable growth rate for fiscal year 2007, but through declining enrollment the District only realized 3.28% funding. The State previously granted 4% allowable growth in fiscal year 2006, 4% for 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 for investments increased to an average rate of 5.15% during the year. Interest earnings in the General Fund alone increased by \$288,642.
- By a public vote of 79.1%, the Local Option Sales Tax (LOST), which added a penny to sales 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 Services Tax (LOSST) or the issuance of bonds in the future.
- Remodeling of Kingsley Elementary School was completed on schedule and the school was reopened August 2006. \$6.6 million was spent on this remodeling. The District has also continued construction of Poyner Elementary at \$12 million with a scheduled opening of August 2007. Poyner Elementary replaces Elk Run Elementary and Jewett Elementary.
- Since the original LOSST funding began in fiscal year 1999-2000, the District has constructed five new elementary schools, completely remodeled two elementary schools and completed other significant projects:

○ W Cunningham School of Excellence	2001-2002	New Building
○ East High School	2001-2002	Commons Area
○ West High School	2001-2002	Commons Area
○ Irving Elementary	2002-2003	New Building
○ Bungler Middle School	2003-2004	Classrooms Addition
○ Lincoln Elementary	2003-2004	New Building
○ Lou Henry Elementary	2004-2005	New Building
○ Hoover Middle School	2004-2005	Classrooms Addition
○ Kingsley Elementary	2005-2006	Remodel Building
○ Lowell Elementary	2004-2007	Remodel Building
○ Poyner Elementary	2006-2007	New Building
○ East High School	2006-2007	Auditorium Project
○ West High School	2006-2007	Locker Room Project

- The District property tax rate of \$16.75 per thousand dollars of taxable property 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 comprise three components: 1) management's discussion and analysis (this section), 2) the basic financial statements (government-wide and fund statements) including notes to the financial statements, and 3) required supplementary information.

- The *statement of net assets* and *statement of activities* provide information on a government-wide basis. The statements present an aggregate view of the District's finances. Government-wide statements contain useful long-term information as well as information for the just-completed fiscal year.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting on the District's operations in more detail than the government-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- *Proprietary funds statements* offer short-term and long-term financial information about the activities the District operates "like businesses," such as food services.
- *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1:

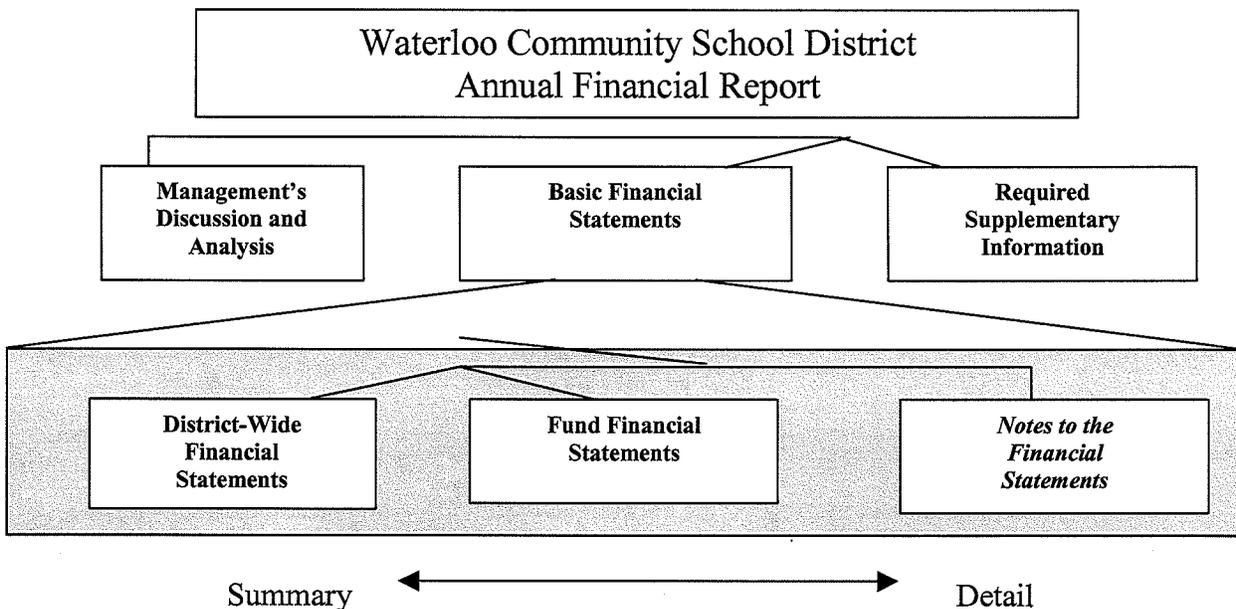


Figure A-2: Major Features of the District wide and Fund Financial Statements

	Government-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services is included here	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statements of revenues, expenditures and changes in fund balance 	<ul style="list-style-type: none"> • Statement of net assets • Statement of cash flows • Statements of revenues, expenditures and changes in fund balance 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of Inflow/outflow information	All revenues and expenses during year regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

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 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 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).

In the Government-wide financial statements, the District's activities are divided into two categories:

- *Government activities:* Most of the District's basic services are included here, such as regular and special education, transportation, plant operation and administration. Property taxes and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The food service and day care programs would be included here.

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 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

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, (such as repaying long-term debts) or to show proper use of certain revenues.

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:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information following the governmental funds statements explains the relationship (or differences) between them.
- **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the Government-wide statements. The District's *enterprise funds* (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District uses enterprise funds for food service and day-care. *Internal service funds*, (the other kind of proprietary fund) are optional and available to report activities that provide supplies and services for other District programs and activities. At this time the District chooses not to use any internal service funds.

- **Fiduciary funds:** The District is the trustee, or fiduciary, for assets that belong to others, such as a scholarship fund. The District accounts for outside donations to specific District schools for specific purposes in this fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Net Assets. Figure A-3 below provides a summary comparison of the District's net assets for the years ended June 30, 2007 and June 30, 2006.

Figure A-3: Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Percent Change
	2006	2007	2006	2007	2006	2007	2007
Current and other assets	\$88,019,901	\$81,222,152	\$1,203,558	\$779,456	\$89,223,459	\$82,001,608	-8.1%
Capital assets	\$75,606,223	\$94,834,360	\$1,733,714	\$1,568,822	\$77,339,937	\$96,403,182	24.6%
Total Assets	\$163,626,124	\$176,056,512	\$2,937,272	\$2,348,278	\$166,563,396	\$178,404,790	7.1%
Current Liabilities	\$48,462,974	\$50,417,320	\$58,528	\$52,868	\$48,521,502	\$50,470,188	4.0%
Long-Term Debt	\$35,752,479	\$36,325,077 (d)	\$0	\$0	\$35,752,479	\$36,325,077	1.6%
Total Liabilities	\$84,215,453	\$86,742,397	\$58,528	\$52,868	\$84,273,981	\$86,795,265	3.0%
Net Assets							
Invested in capital assets	\$74,738,858	\$83,628,549 (e)	\$1,733,714	\$1,568,822	\$76,472,572	\$85,197,371	11.4%
Restricted	\$4,146,371	\$4,142,513	\$0	\$0	\$4,146,371	\$4,142,513	-0.1%
Unrestricted	\$525,442	\$1,543,053 (c)	\$1,145,030	\$726,588 (g)	\$1,670,472	\$2,269,641	35.9%
TOTAL NET ASSETS	\$79,410,671	\$89,314,115	\$2,878,744	\$2,295,410	\$82,289,415	\$91,609,525 (a)	11.3%
Diff in Total Net Assets		\$9,903,444 (b)		-\$583,334 (f)		\$9,320,110	

The District's combined total net assets increased by 11.3% to \$91,609,525(a). The majority of this improvement in the financial position came from governmental activities, the net assets of which grew \$9,903,444(b). Unrestricted net assets improved to \$1,543,053(c) up from the 2006 amount of \$525,442. The long-term debt outstanding increased by \$572,598 to \$36,325,077(d) from early retirement payable. Investments in capital assets (net of related debt) increased by \$8,889,691 to \$83,628,549(e) as the District continues with an aggressive construction schedule remodeling and renovating school buildings with money from the Local Option Sales Tax Levy.

The total net assets of the District's business-type activities decreased by \$583,334(f). This is reflective of a decrease in current assets and capital assets. It also involves a decrease in unrestricted net assets to \$726,588 from \$1,145,030(g) in 2006.

Changes in Net Assets as shown in Figure A-4, show that the District as a whole experienced a 5.4%(h) increase in operating revenues while experiencing a 5.7%(i) increase in operating expenses. Property taxes and State formula aid are the primary sources of revenue that are determined by formula based on student enrollment. The state allowable growth as approved by the Iowa State Legislature was set at 4%, but due to District declining enrollment, the State aid based on enrollment increased by 3.28%. A portion of the property tax increase was due to an increase in the Instructional Support Levy.

Other areas of increased revenues include a continued success in obtaining operating and capital grants. The significant increase in the Other category is directly related to increasing investments and the obtaining favorable interest rates.

Overall, total net assets increased by 11.3%(j) over 2005-06 as compared to an overall increase of 12.4% in the previous year.

Figure A-4: Changes in Net assets from Operating Results

	Governmental Activities		Business-type Activities		Total School District		Total Percent Change 2007
	2006	2007	2006	2007	2006	2007	
Revenues							
Program Revenues							
Charges for services	\$ 2,923,061	\$ 3,266,871	\$ 1,420,431	\$ 1,527,440	\$ 4,343,492	\$ 4,794,311	10.4%
Operating Grants	\$ 17,652,337	\$ 18,273,695	\$ 3,127,122	\$ 3,065,463	\$ 20,779,459	\$ 21,339,158	2.7%
Capital Grants	\$ 510,812	\$ 813,510		\$ -	\$ 510,812	\$ 813,510	59.3%
General Revenues							
Property Taxes	\$ 31,723,960	\$ 33,929,877		\$ -	\$ 31,723,960	\$ 33,929,877	7.0%
Local Option Sales Tax	\$ 10,582,746	\$ 9,896,764		\$ -	\$ 10,582,746	\$ 9,896,764	-6.5%
State Formula Aid	\$ 42,132,723	\$ 43,698,035		\$ -	\$ 42,132,723	\$ 43,698,035	3.7%
Other	\$ 891,918	\$ 2,525,246	\$ 38,087	\$ 45,254	\$ 930,005	\$ 2,570,500	176.4%
Total Revenues	\$ 106,417,557	\$ 112,403,998	\$ 4,585,640	\$ 4,638,157	\$ 111,003,197	\$ 117,042,155	5.4%
							(h)
Expenses							
Instruction	\$ 64,758,443	\$ 66,680,442			\$ 64,758,443	\$ 66,680,442	3.0%
Pupil & Instructional Svcs	\$ 4,820,248	\$ 5,667,882			\$ 4,820,248	\$ 5,667,882	17.6%
Administrative & Business	\$ 9,985,162	\$ 9,500,539			\$ 9,985,162	\$ 9,500,539	-4.9%
Maintenance & Operations	\$ 7,892,223	\$ 9,948,569			\$ 7,892,223	\$ 9,948,569	26.1%
Transportation	\$ 3,236,660	\$ 3,323,520			\$ 3,236,660	\$ 3,323,520	2.7%
Other	\$ 6,366,409	\$ 7,236,885	\$ 4,850,916	\$ 5,364,208	\$ 11,217,325	\$ 12,601,093	12.3%
Total Expenses	\$ 97,059,145	\$ 102,357,837	\$ 4,850,916	\$ 5,364,208	\$ 101,910,061	\$ 107,722,045	5.7%
							(i)
Other Financing Sources							
Transfers IN			\$ 216,902	\$ 142,717	\$ 216,902	\$ 142,717	
Transfers OUT	\$ (216,902)	\$ (142,717)			\$ (216,902)	\$ (142,717)	
Total Transfers	\$ (216,902)	\$ (142,717)	\$ 216,902	\$ 142,717	\$ -	\$ -	
Increase (decrease)	\$ 9,141,510	\$ 9,903,444	\$ (48,374)	\$ (583,334)	\$ 9,093,136	\$ 9,320,110	
Net Assets - July 1	\$ 70,269,161	\$ 79,410,671	\$ 2,927,118	\$ 2,878,744	\$ 73,196,279	\$ 82,289,415	
Net Assets - June 30	\$ 79,410,671	\$ 89,314,115	\$ 2,878,744	\$ 2,295,410	\$ 82,289,415	\$ 91,609,525	11.3%
							(j)

Business-type activities experienced a \$583,334 decrease in new assets for 2006-07. Total revenues increased 1% but expenses increased 10.6%. The School Nutrition Fund experienced expenses greater than the revenue being generated. This program has been operated for several years by a private contractor, however, in 2007-08 the District will take the program "in-house." The total net assets for business-type activities decreased by 20%.

Governmental Activities

Figure A-5 shows the sources of Governmental Funds revenues. State foundation aid, the largest revenue source, is 39% of District revenues while property taxes contribute 30%. Grant revenues from Federal, State and local sources, play an increasingly important role in funding, which represent 17% of District revenues. The Local Option Sales Tax contributes 9%, charges for services, largely student and activity fees are at 3% and other miscellaneous total 2% of District revenues.

Figure A-5

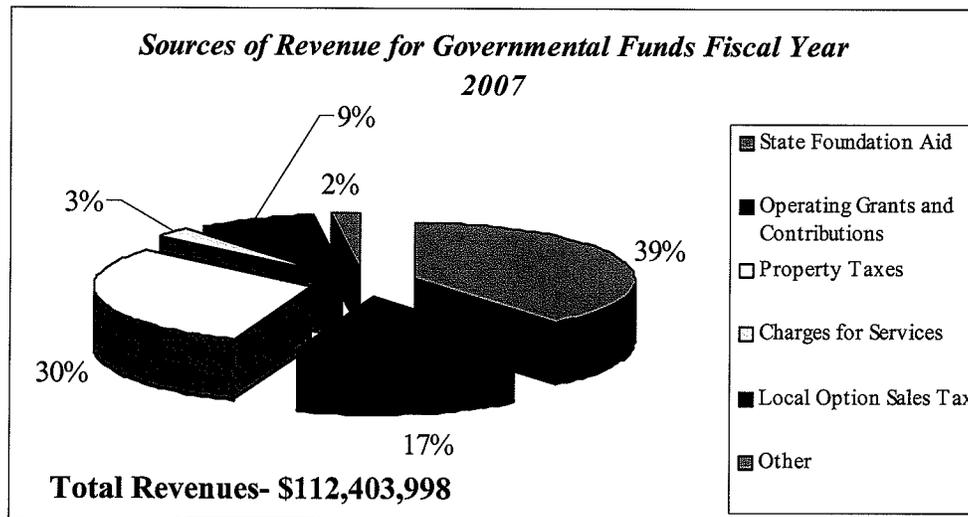


Figure A-6 the District's predominant expenses are related to direct student instruction. Basic instructional services together with pupil & instructional services comprise 71% of the District's expenditures. Administration and business functions total 9%, maintenance and operations is 10% and transportation is 3% of expenses. The other category at 7% include facility projects funded by the Local Option Sales Tax and the state mandated "flow-through" money to support Area Education Agency 267. AEA 267 is an intermediary educational unit providing instructional support to 60 public school districts and 19 nonpublic schools in North and Central Iowa.

Figure A-6:

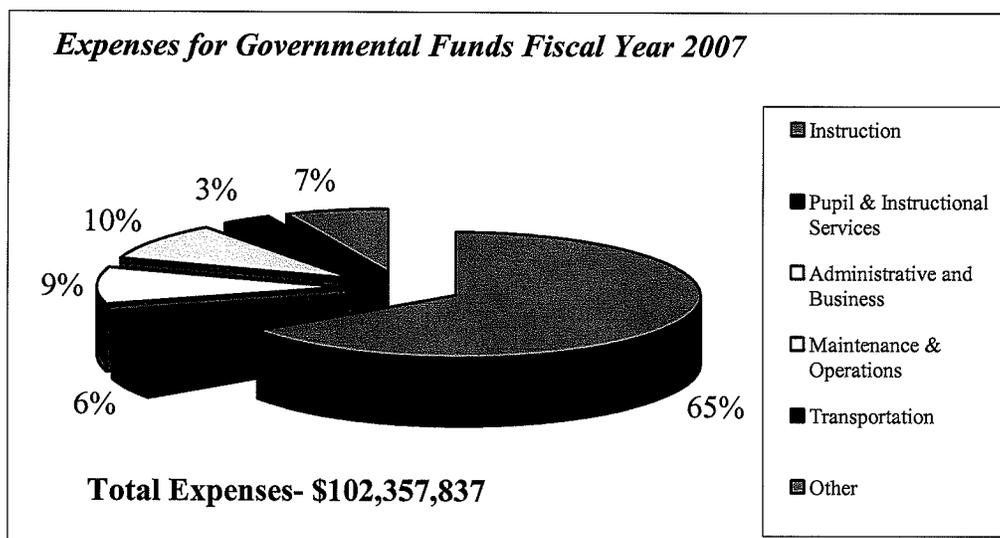


Figure A-7 presents the cost of six major District activities: instruction, pupil and instructional services, administration and business, maintenance and operations, transportation, and other. The table also shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

Figure A-7: Net Cost of Governmental Activities

	Total Cost of Services		Percentage Change 2006-07	Net Cost of Services		Percentage Change 2006-07
	2006	2007		2006	2007	
Instruction	\$ 64,758,443	\$ 66,680,442	2.97%	\$ 48,082,898	\$ 49,228,677	2.38%
Pupil & Instructional Svcs	\$ 4,820,248	\$ 5,667,882	17.58%	\$ 4,820,248	\$ 5,667,882	17.58%
Administrative & Business	\$ 9,985,162	\$ 9,500,539	-4.85%	\$ 9,985,162	\$ 9,500,539	-4.85%
Maintenance & Operations	\$ 7,892,223	\$ 9,948,569	26.06%	\$ 7,710,724	\$ 9,810,005	27.23%
Transportation	\$ 3,236,660	\$ 3,323,520	2.68%	\$ 3,077,007	\$ 3,163,867	2.82%
Other	\$ 6,366,409	\$ 7,254,885	13.96%	\$ 2,296,896	\$ 2,650,291	15.39%
TOTAL	\$ 97,059,145	\$ 102,375,837	5.48%	\$ 75,972,935	\$ 80,021,261	5.33%

- The total cost of all governmental activities this year was \$102,375,837 up 5.48% from 2005-06.
- Most of the District's net costs of \$80,021,261 were financed by District and state taxpayers.

Business-Type Activities

Revenues of the District's business-type activities (food and nutrition services and the employee day care) were comprised of charges for services, federal and state reimbursements and investment earnings. (See Figure A-4).

- Business-type activities expenses exceeded revenues by \$583,334 for 2006-07. In 2005-06 expenses exceeded revenues by \$48,374.
- Charges for services in the School Nutrition Fund represent 34.3% of total revenue. This compares to 32.2% for 2005-06. This represents the amount paid by students/staff for daily food service. In the Day Care Fund, charges for services are 0.0% of total revenue. During 2005-06 this percentage was 1.7%.
- Federal and state reimbursement for meals, including payments for free and reduced lunches, was \$2,879,480 or 64.7% of total revenue for School Nutrition Fund. This is reflective of the District's population of "free and reduced" students, which is typically over 55% of the total.

Financial Analysis of the District'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 Schools financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Waterloo Community School District's governmental funds reported combined ending fund balances of \$30,868,471, a decrease of \$6,797,749 in comparison with the prior year 2005-06. The biggest difference is in the Capital Project fund which decreased by \$10,548,811 due to an aggressive building/remodeling plan for District buildings. The General fund ending balance increased by \$1,861,500.

Over 98.6% of the governmental fund balance constitutes *unreserved fund balance*, which is available for spending at the District's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to pay for 1) categorical aid \$416,779 and 2) prepaid expenses \$8,666.

The **General Fund** is the chief operating fund of the Waterloo Community School District. At the end of the current fiscal year, unreserved fund balance of the general fund was \$2,124,731 while total fund balance increased to \$2,541,510.

The fund balance of the Waterloo Community School District's general fund improved by \$1,861,500, or 273.7% during the current fiscal year. Key factors in this improvement are as follows:

- Board action to increase the Instructional Support Levy, which has brought additional revenue support of \$1.2 million to educational programs.
- Budget reductions were put into place which included reducing teaching staff of 4.0 FTE in the high schools, 2.0 FTE in the middle schools and 2.0 FTE in the elementary schools.
- Budget reduction also included 1.0 FTE administrator and 5.0 clerical staff and 8.0 FTE associates.
- Interest rates for investments improved during the year. The District benefited from bidding of investments.

The **Capital Projects Fund** has a total fund balance of \$24,184,448 compared to \$34,725,259 in 2005-06. The revenues to support the fund are generated from Local Option Sales Tax (LOST), which have generated approximately \$10 million per year. In June 2006, the District sold bond anticipation notes (BAN) to finance an aggressive building/remodeling program, which are due June 2009. The proceeds of the BAN make up the majority of the fund balance the last two years. In another public vote, in February 2006, the District has extended the LOST program through June 2019. Under the original LOST program, the District receives approximately \$10 million per year for ten years from 1% sales tax within the District. By legislative action, starting in 2010, the revenue generated will be allocated across the county which will decrease the Waterloo Community School District's annual revenue to approximately \$6.5 million per year. Also, the Iowa legislature is currently considering enacting the LOST program as permanent throughout the state, rather than individual by county approval. This would bring more stability and open other financing options to the District. The capital projects fund has a committee made up of members of the public, city and county representatives, school board members and school administration to plan and analyze its progress.

Proprietary funds: The focus of the Waterloo Community School District's *proprietary funds* is to account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the entity is that the costs of providing the goods or services be financed primarily through user charges. Proprietary fund types include the School Nutrition Fund and the Day Care Fund.

Budgetary Highlights

The District adopts a budget in April for the following year and at the same time considers and approves a budget amendment for expenditures for the current year. The District did not modify its original budget for 2006-07.

A schedule showing the original and final budget amounts compared to the District's actual financial activity is provided in this report as required supplementary information.

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, 2007 amounts to \$96,403,182 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment and furniture, and construction in progress. The total increase in the Waterloo Community School District's investment in capital assets for the current fiscal year was 24.6%.

Figure A-8: Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total School District		Total Percent Change
	2006	2007	2006	2007	2006	2007	2007
Land and improvements	\$ 2,971,469	\$ 2,938,957			\$ 2,971,469	\$ 2,938,957	-1.1%
Construction in progress	\$ 11,494,887	\$ 24,350,435			\$ 11,494,887	\$ 24,350,435	111.8%
Buildings and improvements	\$ 54,425,679	\$ 58,948,722			\$ 54,425,679	\$ 58,948,722	8.3%
Equipment & Furniture	\$ 6,714,188	\$ 8,596,246	\$ 1,733,714	\$ 1,568,822	\$ 8,447,902	\$ 10,165,068	20.3%
TOTAL	\$ 75,606,223	\$ 94,834,360	\$ 1,733,714	\$ 1,568,822	\$ 77,339,937	\$ 96,403,182	24.6%

The increase from 2005-06 to 2006-07 is the completion of and start of several new construction projects. The amount of construction in progress increased by \$12,855,548 and buildings and improvements increased by \$4,523,043. The value of projects under construction during the summer months has increased over last year.

Construction in progress activities during 2006-07 included:

- Renovation at Lowell Elementary
- New construction at Poyner Elementary
- Renovation of East High School auditorium
- Renovation at West High School locker rooms

This compares to projects in progress during 2005-06:

- Renovation at Kingsley Elementary
- Renovation at Lowell Elementary
- New construction at Lou Henry Elementary
- New construction at Poyner Elementary

Long-Term Debt

At June 30, 2007, the District had no general obligation bonds. The District has not had general obligation bonded debt in the last ten years. In June 2006, the District did sell \$35 million in Bond Anticipation Notes with a maturity of three years to help finance facilities construction and improvements throughout the District.

More detailed information on the District's capital assets and long term debt can be found in the notes to the financial statements.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- In recent years, growth in employee wages and benefits has outpaced state funding to schools. All bargaining unit contracts with one exception are one year contracts, and open for renegotiation for next year. Salary and benefits represent 75% of general fund expenditures. Salary and benefit settlements, with any employee group, exceeding the rate of growth of state funding will have an adverse impact upon the District's General Fund budget.
- Budget shortfalls will certainly mean staff reduction but retirements will allow the district to reduce the positions vacated for 2007-08. Overhead costs, such as heating are volatile due to world economy status and allows little flexibility for budget planning.
- District enrollment is projected to continue declining and enrollment has already declined approximately 300 students over the last three years. Under Iowa's school funding formula, District funding is highly dependent upon district enrollments. Future enrollment stability is a critical element in maintaining a sound financial foundation.
- Effective July 1, 2007 an incremental increase the employee's share of the Iowa Public Employees Retirement System (IPERS) contributions will go into effect until employers and employees are paying an equal percentage. The bill also increases the retirement age for new members and changes the retirement formula from a "high three" average salary to a "high five" for new members. The continuing increase in the employers' share of IPERS will negatively impact the budget.
- The District as required by Governmental Accounting Standards Board (GASB): Rule 45, will complete an actuarial study to identify and calculate the District's liability for Other Post Employment Benefits (OPEB). This will create a liability placed on the balance sheet to record the benefit on an accrual basis: i.e.- record the liability as it is being earned, not when it is paid out upon retirement. It is a positive position that the early retirement benefits are controlled by District policy and can be adjusted as necessary. GASB 45 requires the actuarial study every two years for the District.
- The Board increased the Instructional Support Levy which should help improve the ending fund balances for 2007-08.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability of the money it receives. If you have questions about this report or need additional financial information, contact Michael L. Coughlin, Executive Director of Administrative Services, Waterloo Community School District, 1516 Washington Street, Waterloo, Iowa 50702.

Basic Financial Statements

WATERLOO COMMUNITY SCHOOL DISTRICT

**Statement of Net Assets
June 30, 2007**

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents:			
ISCAP	\$ 4,992,100	\$ -	\$ 4,992,100
Other	38,507,462	373,753	38,881,215
Receivables:			
Property tax:			
Delinquent	450,117	-	450,117
Succeeding year	33,411,877	-	33,411,877
Accounts	480,557	4,649	485,206
Accrued ISCAP interest	23,225	-	23,225
Due from other governments	3,157,573	359,674	3,517,247
Inventories	190,575	41,380	231,955
Prepays	8,666	-	8,666
Capital assets, net of accumulated depreciation:			
Land	1,457,441	-	1,457,441
Construction in progress	24,350,435	-	24,350,435
Other capital assets	69,026,484	1,568,822	70,595,306
Total assets	<u>176,056,512</u>	<u>2,348,278</u>	<u>178,404,790</u>
Liabilities			
Accounts payable	3,448,988	10,547	3,459,535
Salaries and benefits payable	7,524,064	42,321	7,566,385
Accrued interest payable	138,540	-	138,540
Due to other governments	855,478	-	855,478
Unearned revenue, succeeding year property tax	33,411,877	-	33,411,877
ISCAP warrants payable	5,000,000	-	5,000,000
ISCAP accrued interest payable	1,273	-	1,273
ISCAP unamortized premium	37,100	-	37,100
Long-term liabilities:			
Portion due within one year:			
Compensated absences	166,536	-	166,536
Portion due more than one year:			
Early retirement payable	770,000	-	770,000
Revenue bonds payable	35,388,541	-	35,388,541
Total liabilities	<u>86,742,397</u>	<u>52,868</u>	<u>86,795,265</u>
Net assets			
Invested in capital assets, net of related debt	83,628,549	1,568,822	85,197,371
Restricted for:			
Management levy	1,402,082	-	1,402,082
Physical plant and equipment levy	1,764,080	-	1,764,080
Other special revenue purposes	976,351	-	976,351
Unrestricted	1,543,053	726,588	2,269,641
Total net assets	<u>\$ 89,314,115</u>	<u>\$ 2,295,410</u>	<u>\$ 91,609,525</u>

See notes to basic financial statements.

WATERLOO COMMUNITY SCHOOL DISTRICT

**Statement of Activities
Year ended June 30, 2007**

Functions/Programs	Expenses	Charges for Services	Program Revenues	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities				
Instruction:				
Regular instruction	\$ 40,428,819	\$ 1,194,883	\$ 12,716,002	\$ -
Special instruction	17,836,512	-	1,393,521	-
Vocational instruction	1,177,448	103,622	213,935	-
Other instruction	7,237,663	1,829,802	-	-
	<u>66,680,442</u>	<u>3,128,307</u>	<u>14,323,458</u>	<u>-</u>
Support services:				
Student services	2,832,921	-	-	-
Instructional staff services	2,834,961	-	-	-
General administration services	811,590	-	-	-
School administration services	5,932,682	-	-	-
Business and central administration services	2,756,267	-	-	-
Operation and maintenance	9,948,569	138,564	-	-
Transportation services	3,323,520	-	159,653	-
Other	333,366	-	-	813,510
Long-term debt interest	1,459,784	-	-	-
AEA flowthrough	3,790,584	-	3,790,584	-
Depreciation (unallocated)	1,657,244	-	-	-
	<u>35,681,488</u>	<u>138,564</u>	<u>3,950,237</u>	<u>813,510</u>
Noninstructional programs	<u>13,407</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>102,375,337</u>	<u>3,266,871</u>	<u>18,273,695</u>	<u>813,510</u>
Business Type Activities				
Noninstructional programs:				
Nutrition services	5,096,978	1,527,440	2,879,573	-
Day care services	267,230	-	185,890	-
	<u>5,364,208</u>	<u>1,527,440</u>	<u>3,065,463</u>	<u>-</u>
Total	<u>\$ 107,739,545</u>	<u>\$ 4,794,311</u>	<u>\$ 21,339,158</u>	<u>\$ 813,510</u>

Continued on following page.

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
\$ (26,517,934)	\$ -	\$ (26,517,934)
(16,442,991)	-	(16,442,991)
(859,891)	-	(859,891)
<u>(5,407,861)</u>	<u>-</u>	<u>(5,407,861)</u>
<u>(49,228,677)</u>	<u>-</u>	<u>(49,228,677)</u>
(2,832,921)	-	(2,832,921)
(2,834,961)	-	(2,834,961)
(811,590)	-	(811,590)
(5,932,682)	-	(5,932,682)
(2,756,267)	-	(2,756,267)
(9,810,005)	-	(9,810,005)
(3,163,867)	-	(3,163,867)
480,144	-	480,144
(1,459,784)	-	(1,459,784)
-	-	-
<u>(1,657,244)</u>	<u>-</u>	<u>(1,657,244)</u>
<u>(30,779,177)</u>	<u>-</u>	<u>(30,779,177)</u>
(13,407)	-	(13,407)
<u>(80,021,261)</u>	<u>-</u>	<u>(80,021,261)</u>
-	(689,965)	(689,965)
<u>-</u>	<u>(81,340)</u>	<u>(81,340)</u>
<u>-</u>	<u>(771,305)</u>	<u>(771,305)</u>
<u>(80,021,261)</u>	<u>(771,305)</u>	<u>(80,792,566)</u>

WATERLOO COMMUNITY SCHOOL DISTRICT

**Statement of Activities, continued
Year ended June 30, 2007**

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				
Gain on disposal of capital assets				
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
33,929,877	-	33,929,877
9,896,764	-	9,896,764
43,715,535	-	43,715,535
2,359,762	45,254	2,405,016
165,336	-	165,336
148	-	148
(142,717)	142,717	-
89,924,705	187,971	90,112,676
9,903,444	(583,334)	9,320,110
79,410,671	2,878,744	82,289,415
\$ 89,314,115	\$ 2,295,410	\$ 91,609,525

WATERLOO COMMUNITY SCHOOL DISTRICT

**Balance Sheet
Governmental Funds
June 30, 2007**

	General	Capital Projects	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and pooled investments:				
ISCAP	\$ 4,992,100	\$ -	\$ -	\$ 4,992,100
Other	9,248,242	24,593,065	4,666,155	38,507,462
Receivables:				
Property tax:				
Delinquent	390,364	-	59,753	450,117
Succeeding year	29,642,569	-	3,769,308	33,411,877
Accounts	478,989	-	1,568	480,557
Accrued ISCAP interest	23,225	-	-	23,225
Due from other governments	806,733	2,168,402	182,438	3,157,573
Inventories	190,575	-	-	190,575
Prepays	-	1,718	6,948	8,666
	<u>\$ 45,772,797</u>	<u>\$ 26,763,185</u>	<u>\$ 8,686,170</u>	<u>\$ 81,222,152</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 95,971	\$ 2,578,737	\$ 774,280	\$ 3,448,988
Salaries and benefits payable	7,523,995	-	69	7,524,064
Due to other governments	855,478	-	-	855,478
ISCAP warrants payable	5,000,000	-	-	5,000,000
ISCAP accrued interest payable	1,273	-	-	1,273
ISCAP unamortized premium	37,100	-	-	37,100
Deferred revenue:				
Succeeding year property tax	29,642,569	-	3,769,308	33,411,877
Other	74,901	-	-	74,901
Total liabilities	<u>43,231,287</u>	<u>2,578,737</u>	<u>4,543,657</u>	<u>50,353,681</u>
Fund balance:				
Reserved for:				
Prepays	-	1,718	6,948	8,666
Categorical aid	416,779	-	-	416,779
Unreserved, reported in:				
General fund, designated for buses	621,500	-	-	621,500
General fund	1,503,231	-	-	1,503,231
Capital projects fund	-	24,182,730	-	24,182,730
Nonmajor Special Revenue funds	-	-	4,135,565	4,135,565
Total fund balances	<u>2,541,510</u>	<u>24,184,448</u>	<u>4,142,513</u>	<u>30,868,471</u>
	<u>\$ 45,772,797</u>	<u>\$ 26,763,185</u>	<u>\$ 8,686,170</u>	<u>\$ 81,222,152</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, 2007**

Total governmental fund balances	\$ 30,868,471
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.	94,834,360
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.	74,901
Long-term liabilities, including bonds payable, early retirement and compensated absences, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.	<u>(36,325,077)</u>
Net assets of governmental activities	<u><u>\$ 89,314,115</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, 2007**

	General	Capital Projects	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property and other local taxes	\$ 29,445,402	\$ 9,896,764	\$ 4,484,475	\$ 43,826,641
Other local sources	2,039,370	1,699,765	2,064,767	5,803,902
Intermediate sources	2,215	-	-	2,215
State sources	55,884,907	-	3,779	55,888,686
Federal sources	6,155,322	500,000	313,510	6,968,832
Total revenues	93,527,216	12,096,529	6,866,531	112,490,276
Expenditures:				
Current:				
Instruction:				
Regular instruction	38,107,299	-	1,186,946	39,294,245
Special instruction	17,764,190	-	-	17,764,190
Vocational instruction	1,238,916	-	-	1,238,916
Other instruction	5,518,537	-	1,652,605	7,171,142
	<u>62,628,942</u>	<u>-</u>	<u>2,839,551</u>	<u>65,468,493</u>
Support services:				
Student services	2,806,972	-	21,859	2,828,831
Instructional staff services	2,718,420	-	57,876	2,776,296
General administration services	786,593	-	16,539	803,132
School administration services	5,695,973	-	219,342	5,915,315
Business and central administration services	2,300,778	3,177	359,243	2,663,198
Operation and maintenance	7,488,498	-	2,280,938	9,769,436
Transportation services	3,330,556	1,236	2,105	3,333,897
Other	17,500	-	-	17,500
Facilities acquisition and construction	-	20,931,935	1,071,277	22,003,212
Interest on long-term debt	-	-	1,662,500	1,662,500
AEA flowthrough	3,790,584	-	-	3,790,584
	<u>28,935,874</u>	<u>20,936,348</u>	<u>5,691,679</u>	<u>55,563,901</u>
Noninstructional programs	-	-	13,407	13,407
Total expenditures	91,564,816	20,936,348	8,544,637	121,045,801
Excess (deficiency) of revenues over (under) expenditures	1,962,400	(8,839,819)	(1,678,106)	(8,555,525)
Other financing sources (uses):				
Transfers in	-	-	1,662,500	1,662,500
Transfers out	(103,000)	(1,700,992)	(1,225)	(1,805,217)
Proceeds from disposal of capital assets	2,100	-	12,973	15,073
Total other financing sources (uses)	(100,900)	(1,700,992)	1,674,248	(127,644)
Net change in fund balances	1,861,500	(10,540,811)	(3,858)	(8,683,169)
Fund balances beginning of year	680,010	34,725,259	4,146,371	39,551,640
Fund balances end of year	\$ 2,541,510	\$ 24,184,448	\$ 4,142,513	\$ 30,868,471

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, 2007**

Net change in fund balances - total governmental funds \$ (8,683,169)

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	\$ 22,139,052	
Depreciation expense	<u>(2,895,990)</u>	19,243,062

The net effect of the disposal of capital assets is to decrease net assets. (14,925)

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. (68,926)

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. 202,716

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>(775,314)</u>
---	------------------

Change in net assets of governmental activities \$ 9,903,444

See notes to basic financial statements.

WATERLOO COMMUNITY SCHOOL DISTRICT

**Statement of Net Assets
Proprietary Funds
June 30, 2007**

Assets	School Nutrition	Day Care	Total Enterprise Funds
Current assets:			
Cash and pooled investments	\$ 290,551	\$ 83,202	\$ 373,753
Accounts receivable	-	4,649	4,649
Due from other governments	349,145	10,529	359,674
Inventories	41,380	-	41,380
	<u>681,076</u>	<u>98,380</u>	<u>779,456</u>
Total current assets			
Noncurrent assets:			
Capital assets, net of accumulated depreciation	<u>1,407,771</u>	<u>161,051</u>	<u>1,568,822</u>
Total assets	<u>2,088,847</u>	<u>259,431</u>	<u>2,348,278</u>
 Liabilities			
Current liabilities:			
Accounts payable	10,547	-	10,547
Salaries and benefits payable	8,532	33,789	42,321
	<u>19,079</u>	<u>33,789</u>	<u>52,868</u>
Total current liabilities			
Total liabilities	<u>19,079</u>	<u>33,789</u>	<u>52,868</u>
 Net assets			
Invested in capital assets	1,407,771	161,051	1,568,822
Unrestricted	<u>661,997</u>	<u>64,591</u>	<u>726,588</u>
Total net assets	<u>\$ 2,069,768</u>	<u>\$ 225,642</u>	<u>\$ 2,295,410</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, 2007**

	School Nutrition	Day Care	Total Enterprise Funds
Operating revenue:			
Local sources:			
Charges for service	\$ 1,527,440	\$ -	\$ 1,527,440
Other	93	11,548	11,641
	<u>1,527,533</u>	<u>11,548</u>	<u>1,539,081</u>
Operating expenses:			
Salaries	1,309,322	154,549	1,463,871
Benefits	685,500	86,971	772,471
Purchased services	311,364	1,782	313,146
Supplies	2,526,174	15,582	2,541,756
Depreciation	202,895	8,346	211,241
Other	61,723	-	61,723
	<u>5,096,978</u>	<u>267,230</u>	<u>5,364,208</u>
Operating loss	<u>(3,569,445)</u>	<u>(255,682)</u>	<u>(3,825,127)</u>
Nonoperating revenue (expenses):			
State sources	47,678	22,993	70,671
Federal sources	2,831,802	151,349	2,983,151
Interest on investments	42,884	2,370	45,254
Total non-operating revenue	<u>2,922,364</u>	<u>176,712</u>	<u>3,099,076</u>
Loss before transfers	(647,081)	(78,970)	(726,051)
Transfers from other funds	<u>39,717</u>	<u>103,000</u>	<u>142,717</u>
Change in net assets	(607,364)	24,030	(583,334)
Net assets beginning of year	<u>2,677,132</u>	<u>201,612</u>	<u>2,878,744</u>
Net assets end of year	<u><u>\$2,069,768</u></u>	<u><u>\$ 225,642</u></u>	<u><u>\$ 2,295,410</u></u>

See notes to basic financial statements.

WATERLOO COMMUNITY SCHOOL DISTRICT

**Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2007**

	School Nutrition	Day Care	Total Enterprise Funds
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 1,545,111	\$ -	\$ 1,545,111
Cash received from other	93	11,548	11,641
Cash payments to employees for services	(1,958,336)	(246,645)	(2,204,981)
Cash payments to suppliers for goods or services	(2,591,509)	(17,364)	(2,608,873)
Net cash used in operating activities	<u>(3,004,641)</u>	<u>(252,461)</u>	<u>(3,257,102)</u>
Cash flows from noncapital financing activities:			
State grants received	47,678	22,993	70,671
Federal grants received	2,342,231	135,030	2,477,261
Transfers	-	103,000	103,000
Net cash provided by noncapital financing activities	<u>2,389,909</u>	<u>261,023</u>	<u>2,650,932</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	<u>(6,632)</u>	<u>-</u>	<u>(6,632)</u>
Cash flows from investing activities:			
Interest on investments	<u>42,884</u>	<u>2,370</u>	<u>45,254</u>
Net increase (decrease) in cash and cash equivalents	(578,480)	10,932	(567,548)
Cash and cash equivalents at beginning of year	<u>869,031</u>	<u>72,270</u>	<u>941,301</u>
Cash and cash equivalents at end of year	<u>\$ 290,551</u>	<u>\$ 83,202</u>	<u>\$ 373,753</u>
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	\$ (3,569,445)	\$ (255,682)	\$ (3,825,127)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Commodities used	182,062	-	182,062
Depreciation	202,895	8,346	211,241
Decrease in accounts receivable	17,670	1,141	18,811
Decrease in inventories	125,456	-	125,456
Decrease in prepaids	36,115	-	36,115
(Decrease) in accounts payable	(544)	(149)	(693)
Increase (Decrease) in salaries and benefits payable	1,150	(6,117)	(4,967)
Net cash used in operating activities	<u>\$ (3,004,641)</u>	<u>\$ (252,461)</u>	<u>\$ (3,257,102)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2007, the District received \$182,062 of federal commodities.

During the year ended June 30, 2007, the District received \$38,492 of equipment from the Capital Projects Fund and \$1,225 of equipment from the Physical Plant and Equipment Levy Fund.

See notes to basic financial statements.

WATERLOO COMMUNITY SCHOOL DISTRICT

**Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
June 30, 2007**

	Agency
Assets	
Cash and pooled investments	<u>\$ 67,364</u>
Total assets	<u><u>\$ 67,364</u></u>
Liabilities	
Liabilities:	
Due to other governments	<u>\$ 67,364</u>
Total liabilities	<u><u>\$ 67,364</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 10,276. 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, 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 and reduced by outstanding balances for bonds attributable 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 which 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 revenues 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 expenditures, 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 which focuses on net assets and changes in net assets. The District's fiduciary fund includes the following:

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

C. Measurement Focus and Basis of Accounting

The Government-wide, 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. Property tax is recognized as revenue in the year for which it is levied. 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 in April 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, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

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, 2007, expenditures in the functional areas of support services, noninstructional programs and other expenditures exceeded the amounts 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; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts and warrants for improvement certificates of a drainage district. The District has no investment policies that would further limit its investment choices.

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	<u>\$ 16,494</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 deposits in banks to be entirely covered by federal depository insurance or by the State Sinking Fund. As of June 30, 2007, 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, 2007 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	\$ -	\$ 21,733	\$ -	\$ -
2007-08A	6/27/2007	6/27/2008	4,992,100	1,492	5,000,000	1,273
			<u>\$4,992,100</u>	<u>\$ 23,225</u>	<u>\$5,000,000</u>	<u>\$ 1,273</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, 2007 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2006-07A	\$ -	\$4,993,000	\$4,993,000	\$ -

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.50%	5.6760%
2007-08A	4.50%	5.4550%

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Basic Financial Statements

(4) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,457,441	\$ -	\$ -	\$ 1,457,441
Construction in progress	<u>11,494,887</u>	<u>19,590,996</u>	<u>(6,735,448)</u>	<u>24,350,435</u>
Total capital assets not being depreciated	<u>12,952,328</u>	<u>19,590,996</u>	<u>(6,735,448)</u>	<u>25,807,876</u>
Capital assets being depreciated:				
Buildings and improvements	85,615,462	6,096,834	-	91,712,296
Improvements other than buildings	2,656,235	50,941	-	2,707,176
Machinery and equipment	<u>19,023,301</u>	<u>3,135,729</u>	<u>(125,301)</u>	<u>22,033,729</u>
Total capital assets being depreciated	<u>107,294,998</u>	<u>9,283,504</u>	<u>(125,301)</u>	<u>116,453,201</u>
Less accumulated depreciation for:				
Buildings and improvements	31,189,783	1,573,791	-	32,763,574
Improvements other than buildings	1,142,207	83,453	-	1,225,660
Machinery and equipment	<u>12,309,113</u>	<u>1,238,746</u>	<u>(110,376)</u>	<u>13,437,483</u>
Total accumulated depreciation	<u>44,641,103</u>	<u>2,895,990</u>	<u>(110,376)</u>	<u>47,426,717</u>
Total capital assets being depreciated, net	<u>62,653,895</u>	<u>6,387,514</u>	<u>(14,925)</u>	<u>69,026,484</u>
Governmental activities capital assets, net	<u>\$ 75,606,223</u>	<u>\$ 25,978,510</u>	<u>\$ (6,750,373)</u>	<u>\$ 94,834,360</u>
Business type activities:				
Furniture, equipment, vehicles	\$ 2,693,945	\$ 46,349	\$ -	\$ 2,740,294
Less accumulated depreciation	<u>960,231</u>	<u>211,241</u>	<u>-</u>	<u>1,171,472</u>
Business type activities capital assets, net	<u>\$ 1,733,714</u>	<u>\$ (164,892)</u>	<u>\$ -</u>	<u>\$ 1,568,822</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, 2007 are as follows:

	Balance June 30, 2006	Increase	Decreases	Balance June 30, 2007
Pre July 1, 1997	\$ 45,289,669	\$ -	\$ -	\$ 45,289,669
General fund revenue	11,219,324	277,966	(70,774)	11,426,516
Capital projects fund revenue	59,420,027	27,832,658	(6,747,948)	80,504,737
Special revenue funds revenue	4,193,233	763,876	(42,027)	4,915,082
Donations	125,073	-	-	125,073
	<u>\$120,247,326</u>	<u>\$ 28,874,500</u>	<u>\$ (6,860,749)</u>	<u>\$ 142,261,077</u>

The changes in capital assets used in the operation of governmental funds by function and activity as of June 30, 2007 are as follows:

Function and Activity	Balance June 30, 2006	Increase	Decreases	Balance June 30, 2007
Education	\$114,196,141	\$ 28,708,301	\$ (6,840,960)	\$ 136,063,482
Transportation	239,661	-	-	239,661
Maintenance	3,289,105	121,038	(19,789)	3,390,354
Administration	2,522,419	45,161	-	2,567,580
	<u>\$120,247,326</u>	<u>\$ 28,874,500</u>	<u>\$ (6,860,749)</u>	<u>\$ 142,261,077</u>

The capital assets used in the operation of governmental funds by function and activity as of June 30, 2007 are as follows:

Function and Activity	Construction in Progress	Land and Site Improvements	Buildings	Machinery and Equipment	Total
Education	\$24,350,435	\$ 3,643,581	\$ 90,796,274	\$ 17,273,192	\$ 136,063,482
Transportation	-	7,000	52,000	180,661	239,661
Maintenance	-	458,636	516,364	2,415,353	3,390,353
Administration	-	55,400	347,658	2,164,523	2,567,581
	<u>\$24,350,435</u>	<u>\$ 4,164,617</u>	<u>\$ 91,712,296</u>	<u>\$ 22,033,729</u>	<u>\$ 142,261,077</u>

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Basic Financial Statements

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 391,178
Special	78,236
Vocational	7,112
Other	234,706
Support services:	
Student	4,090
Instructional staff	64,020
General administration	11,661
School administration	23,377
Business and central administration	129,016
Operation and maintenance	294,950
Transportation	400
	<u>1,238,746</u>
Unallocated depreciation	<u>1,657,244</u>
	<u>\$ 2,895,990</u>
Business type activities:	
School nutrition	\$ 202,895
Day care	8,346
	<u>\$ 211,241</u>

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

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Notes payable	\$ 35,000,000	\$ -	\$ -	\$ 35,000,000	\$ -
Notes payable premium	<u>591,257</u>	<u>-</u>	<u>202,716</u>	<u>388,541</u>	<u>-</u>
	35,591,257	-	202,716	35,388,541	-
Compensated absences	161,222	64,177	58,863	166,536	166,536
Early retirement	<u>-</u>	<u>770,000</u>	<u>-</u>	<u>770,000</u>	<u>-</u>
Total	<u>\$ 35,752,479</u>	<u>\$ 834,177</u>	<u>\$ 261,579</u>	<u>\$ 36,325,077</u>	<u>\$ 166,536</u>

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Basic Financial Statements

Details of the District's June 30, 2007 local option sales and services tax bond and revenue anticipation notes indebtedness are as follows:

Year Ending June 30,	Bond Issue June 1, 2006			Total
	Interest Rate	Principal	Interest	
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>\$ 3,325,000</u>	<u>\$ 38,325,000</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 did not exceed its legal debt margin at June 30, 2007 as follows:

Total assessed valuation	<u>\$ 3,305,769,471</u>
Debt limit, 5% of total assessed valuation	\$ 165,288,474
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>\$ 130,288,474</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, 2007, 2006, and 2005 were \$3,107,066, \$2,964,708, and \$2,748,831, 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 \$3,790,584 for the year ended June 30, 2007, 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 \$24,691,621 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, Poyner Elementary School, East High School and West High School. At June 30, 2007, \$17,560,803 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 January 5, 2007. The benefit amount is \$21,000 per teacher and final payment is due in July, 2009.

Approximately 58 employees were participating in the early retirement plans as of June 30, 2007. Early retirement benefits paid to employees during the year were \$470,679.

(11) Transfers Within the Reporting Entity

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

Interfund transfers were as follows:

Transfer Out:	Transfer In				Total
	Debt Service Fund	School Nutrition Enterprise Fund	Day Care Enterprise Fund		
General Fund	\$ -	\$ -	\$ 103,000	\$ 103,000	\$ 103,000
Physical Plant and Equipment Levy fund	-	1,225	-	1,225	1,225
Capital projects fund	1,662,500	38,492	-	1,700,992	1,700,992
Total	\$ 1,662,500	\$ 39,717	\$ 103,000	\$ 1,805,217	\$ 1,805,217

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, 2007, expenditures in the support services, noninstructional programs and other expenditures areas exceeded the amounts budgeted.

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, 2007**

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Revenues:		
Local sources	\$ 49,630,543	\$ 1,584,335
Intermediate sources	2,215	-
State sources	55,888,686	70,671
Federal sources	6,968,832	2,983,151
Total revenues	<u>112,490,276</u>	<u>4,638,157</u>
Expenditures/Expenses:		
Instruction	65,468,493	-
Support services	28,090,105	-
Noninstructional programs	13,407	5,364,208
Other expenditures	27,473,796	-
Total expenditures/expenses	<u>121,045,801</u>	<u>5,364,208</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(8,555,525)	(726,051)
Other financing sources, net	<u>(127,644)</u>	<u>142,717</u>
Net change in fund balance	<u>\$ (8,683,169)</u>	<u>\$ (583,334)</u>

See note to required supplementary information.

Total Actual	Budgeted Amounts		Final to Actual Variance- Positive (Negative)
	Original	Final	
\$ 51,214,878	\$ 50,728,223	\$ 50,728,223	\$ 486,655
2,215	750,000	750,000	(747,785)
55,959,357	55,514,654	55,514,654	444,703
9,951,983	9,000,000	9,000,000	951,983
<u>117,128,433</u>	<u>115,992,877</u>	<u>115,992,877</u>	<u>1,135,556</u>
65,468,493	66,528,303	66,528,303	1,059,810
28,090,105	28,046,000	28,046,000	(44,105)
5,377,615	4,760,000	4,760,000	(617,615)
27,473,796	19,483,138	19,483,138	(7,990,658)
<u>126,410,009</u>	<u>118,817,441</u>	<u>118,817,441</u>	<u>(7,592,568)</u>
(9,281,576)	(2,824,564)	(2,824,564)	(6,457,012)
15,073	-	-	15,073
<u>\$ (9,266,503)</u>	<u>\$ (2,824,564)</u>	<u>\$ (2,824,564)</u>	<u>\$ (6,441,939)</u>

WATERLOO COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting June 30, 2007

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

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

During the year ended June 30, 2007, expenditures in the support services, noninstructional programs and other expenditures functional areas exceeded the amounts budgeted.

WATERLOO COMMUNITY SCHOOL DISTRICT

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007**

Assets	Special Revenue			Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	
Cash and pooled investments	\$ 1,845,750	\$ 1,014,956	\$ 1,805,449	\$ 4,666,155
Receivables:				
Property tax:				
Delinquent	31,205	-	28,548	59,753
Succeeding year	1,667,767	-	2,101,541	3,769,308
Accounts	404	890	274	1,568
Due to other governments	-	-	182,438	182,438
Prepays	6,948	-	-	6,948
	<u>6,948</u>	<u>-</u>	<u>-</u>	<u>6,948</u>
Total assets	<u>\$ 3,552,074</u>	<u>\$ 1,015,846</u>	<u>\$ 4,118,250</u>	<u>\$ 8,686,170</u>
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ 482,225	\$ 39,495	\$ 252,560	\$ 774,280
Salaries and benefits payable	-	-	69	69
Deferred revenue:				
Succeeding year property tax	1,667,767	-	2,101,541	3,769,308
Total liabilities	<u>2,149,992</u>	<u>39,495</u>	<u>2,354,170</u>	<u>4,543,657</u>
Fund equity:				
Reserved for:				
Prepays	6,948	-	-	6,948
Unreserved, undesignated fund balance	1,395,134	976,351	1,764,080	4,135,565
Total fund balances	<u>1,402,082</u>	<u>976,351</u>	<u>1,764,080</u>	<u>4,142,513</u>
Total liabilities and fund equity	<u>\$ 3,552,074</u>	<u>\$ 1,015,846</u>	<u>\$ 4,118,250</u>	<u>\$ 8,686,170</u>

See accompanying independent auditors' report.

Other Supplementary Information

WATERLOO COMMUNITY SCHOOL DISTRICT

**Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds
Year ended June 30, 2007**

	Special Revenue			Total Special Revenue
	Management Levy	Student Activity	Physical Plant and Equipment Levy	
Revenues:				
Property and other local taxes	\$ 2,353,845	\$ -	\$ 2,130,630	\$ 4,484,475
Other local sources	110,310	1,829,802	124,655	2,064,767
State sources	1,997	-	1,782	3,779
Federal sources	-	-	313,510	313,510
Total revenues	2,466,152	1,829,802	2,570,577	6,866,531
Expenditures:				
Current:				
Instruction:				
Regular instruction	1,186,946	-	-	1,186,946
Other instruction	-	1,652,605	-	1,652,605
Support services:				
Student services	21,859	-	-	21,859
Instructional staff services	57,876	-	-	57,876
General administration services	16,539	-	-	16,539
School administration services	219,342	-	-	219,342
Business and central administration services	56,739	143,467	159,037	359,243
Operation and maintenance	599,083	-	1,681,855	2,280,938
Transportation services	2,105	-	-	2,105
Facilities acquisition and construction	-	-	1,071,277	1,071,277
Interest on long-term debt	-	-	-	-
Noninstructional programs	13,407	-	-	13,407
Total expenditures	2,173,896	1,796,072	2,912,169	6,882,137
Excess of revenues over expenditures	292,256	33,730	(341,592)	(15,606)
Other financing sources (uses):				
Proceeds from disposal of capital assets	12,973	-	-	12,973
Transfers in	-	-	-	-
Transfers out	-	-	(1,225)	(1,225)
Total other financing sources (uses)	12,973	-	(1,225)	11,748
Net change in fund balances	305,229	33,730	(342,817)	(3,858)
Fund balances beginning of year	1,096,853	942,621	2,106,897	4,146,371
Fund balances end of year	\$ 1,402,082	\$ 976,351	\$ 1,764,080	\$ 4,142,513

See accompanying independent auditors' report.

	Debt Service	Total
\$	-	\$ 4,484,475
	-	2,064,767
	-	3,779
	-	313,510
	-	<u>6,866,531</u>
	-	1,186,946
	-	1,652,605
	-	21,859
	-	57,876
	-	16,539
	-	219,342
	-	359,243
	-	2,280,938
	-	2,105
	-	1,071,277
	1,662,500	1,662,500
	-	13,407
	<u>1,662,500</u>	<u>8,544,637</u>
	<u>(1,662,500)</u>	<u>(1,678,106)</u>
	-	12,973
	1,662,500	1,662,500
	-	(1,225)
	<u>1,662,500</u>	<u>1,674,248</u>
	-	(3,858)
	-	4,146,371
\$	<u>-</u>	<u>\$ 4,142,513</u>

WATERLOO COMMUNITY SCHOOL DISTRICT

**Schedule of Changes in Fiduciary Assets and Liabilities -
Agency Fund
Year ended June 30, 2007**

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash	<u>\$ 24,650</u>	<u>\$ 266,384</u>	<u>\$ 223,670</u>	<u>\$ 67,364</u>
Total assets	<u><u>\$ 24,650</u></u>	<u><u>\$ 266,384</u></u>	<u><u>\$ 223,670</u></u>	<u><u>\$ 67,364</u></u>
Liabilities				
Due to other governments	<u>\$ 24,650</u>	<u>\$ 266,384</u>	<u>\$ 223,670</u>	<u>\$ 67,364</u>
Total liabilities	<u><u>\$ 24,650</u></u>	<u><u>\$ 266,384</u></u>	<u><u>\$ 223,670</u></u>	<u><u>\$ 67,364</u></u>

See accompanying independent auditors' report.

WATERLOO COMMUNITY SCHOOL DISTRICT

**Schedule of Changes in Special Revenue Fund, Student Activity Accounts
Year ended June 30, 2007**

Account	Balance Beginning of Year	Revenues and Interfund Transfers	Expenditures	Balance End of Year
High Schools:				
East	\$ 83,648	\$ 283,847	\$ 288,360	\$ 79,135
West	335,362	844,873	854,322	325,913
Expo	19,796	23,050	23,258	19,588
Middle Schools:				
Central	82,817	53,522	44,314	92,025
Hoover	59,917	115,634	105,037	70,514
Logan	14,842	23,325	25,908	12,259
Bunger	37,380	45,547	46,088	36,839
Elementary Schools:				
Black Hawk	4,111	12,161	11,060	5,212
Cunningham	17,501	43,175	46,617	14,059
Edison	15,858	44,114	45,065	14,907
Elk Run	15,443	23,640	21,775	17,308
Irving	9,932	12,688	9,451	13,169
Jewett	25,544	10,896	6,569	29,871
Kingsley	13,699	60,113	36,178	37,634
Kittrell	25,897	16,164	13,696	28,365
Lincoln	11,367	3,571	2,883	12,055
Longfellow	11,186	10,895	13,060	9,021
Lowell	24,645	21,080	17,926	27,799
Orange	21,065	35,143	31,082	25,126
McKinstry	38,961	60,752	27,920	71,793
Lou Henry	46,502	49,121	65,657	29,966
Other	27,148	36,491	59,846	3,793
Total	\$ 942,621	\$ 1,829,802	\$ 1,796,072	\$ 976,351

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,			
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 43,826,641	\$ 42,087,405	\$ 40,599,831	\$ 38,456,247
Other	5,803,902	4,545,891	3,374,140	2,876,064
Intermediate sources	2,215	2,725	131,022	138,278
State sources	55,888,686	52,891,722	49,774,462	48,722,481
Federal sources	6,968,832	7,133,501	7,724,946	7,048,560
Total revenues	\$ 112,490,276	\$ 106,661,244	\$ 101,604,401	\$ 97,241,630
Expenditures:				
Instruction:				
Regular instruction	\$ 39,294,245	\$ 36,854,924	\$ 36,885,149	\$ 36,547,236
Special instruction	17,764,190	23,909,417	20,432,358	18,270,906
Vocational instruction	1,238,916	1,441,783	1,225,442	1,281,012
Other instruction	7,171,142	2,610,481	3,065,679	2,531,422
Support services:				
Student services	2,828,831	2,995,164	2,950,960	2,932,722
Instructional staff services	2,776,296	1,744,630	2,650,565	2,175,810
General administration services	803,132	1,067,712	910,675	972,748
Building administration services	5,915,315	5,656,379	4,851,254	4,728,914
Business and central administration services	2,663,198	3,308,954	2,801,451	2,303,284
Operation and maintenance	9,769,436	8,244,959	9,447,732	10,269,848
Transportation services	3,333,897	3,234,530	2,742,655	2,634,361
Central support services	-	-	-	-
Non-instructional programs	13,407	5,264	99,458	169,691
Other expenses:				
Facilities acquisition	22,003,212	10,164,017	13,136,293	11,132,215
Long-term debt:				
Principal	-	-	-	-
Interest and other charges	1,662,500	-	-	-
AEA flowthrough	3,790,584	3,558,701	3,388,142	3,360,178
Total expenditures	\$ 121,045,801	\$ 104,796,915	\$ 104,587,813	\$ 99,310,347

See accompanying independent auditors' report.

WATERLOO COMMUNITY SCHOOL DISTRICT

**Schedule of Expenditures of Federal Awards
Year ended June 30, 2007**

Grantor/Program	CFDA Number	Grant Number	Expenditures
U.S. Department of Agriculture:: Indirect:			
Iowa Department of Education:			
Food Donation (Noncash)	10.550	N/A	<u>\$ 182,062</u>
Child and Adult Care Food Program	10.558	N/A	<u>7,176</u>
Child Nutrition Cluster Programs:			
School Breakfast Program	10.553	N/A	435,379
National School Lunch Program	10.555	N/A	2,054,100
Summer Food Service Program for Children	10.559	N/A	<u>160,261</u>
			<u>2,649,740</u>
Total U.S. Department of Agriculture			<u>2,838,978</u>
U.S. Department of Education:			
Indirect:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	6795-G-00	12,780
Title I Grants to Local Educational Agencies	84.010	6795-D-00	2,124
Title I Grants to Local Educational Agencies	84.010	6795-MC-0	243
Title I Grants to Local Educational Agencies	84.010	6795-SI-06	19,356
Title I Grants to Local Educational Agencies	84.010	6795-MC-0	14,000
Title I Grants to Local Educational Agencies	84.010	6795-M-00	7,146
Title I Grants to Local Educational Agencies	84.010	6795-SI-07	66,212
Title I Grants to Local Educational Agencies	84.010	6795-GC-00	74,081
Title I Grants to Local Educational Agencies	84.010	6795-G-00	2,371,056
Title I Grants to Local Educational Agencies	84.010	6795-D-00	87,096
Title I Grants to Local Educational Agencies	84.010	6795-M-00	<u>100,098</u>
			<u>2,754,192</u>
State Grants for Innovative Programs	84.298	N/A	<u>27,944</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	N/A	<u>65,191</u>
Career and Technical Education - Basic Grants to States	84.048	N/A	<u>196,125</u>
Fund for the Improvement of Education	84.215	N/A	<u>813,501</u>
Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	N/A	<u>100</u>
English Language Acquisition Grants	84.365	N/A	<u>105,824</u>
Grants for State Assessments and Related Activities	84.369	N/A	<u>73,969</u>

(continued)

WATERLOO COMMUNITY SCHOOL DISTRICT

**Schedule of Expenditures of Federal Awards
Year ended June 30, 2007**

Grantor/Program	CFDA Number	Grant Number	Expenditures
U.S. Department of Education (continued):			
Indirect (continued):			
Iowa Department of Education:			
Improving Teacher Quality State Grant	84.367	N/A	<u>783,436</u>
Advanced Placement Program	84.330	N/A	<u>2,363</u>
Hurricane Education Recovery	84.938	N/A	<u>45,155</u>
Special Education Grants to States	84.027	N/A	<u>16,110</u>
Reading First State Grants	84.357	N/A	<u>363,997</u>
Rehabilitation Services-Vocational Rehabilitation Grants to States	84.126	N/A	<u>77,628</u>
Grant Wood AEA:			
Education Technology State Grants	84.318	N/A	<u>58,601</u>
Area Education Agency 267:			
Special Education - Grants to States	84.027	N/A	<u>680,659</u>
Pathways Behavioral Services, Inc.:			
Safe and Drug-Free Schools and Communities - State Grants	84.186	N/A	<u>5,349</u>
School Administrators of Iowa:			
Parental Assistance Centers	84.310	N/A	<u>59,119</u>
Teacher Exchange	Unkonwn	N/A	<u>1,089</u>
Direct:			
Safe and Drug-Free Schools and Communities-National Programs	84.184	N/A	<u>48,050</u>
Fund for the Improvement of Education	84.215	V215L042043	<u>165,450</u>
Total U.S. Department of Education			<u>6,343,852</u>

(continued)

WATERLOO COMMUNITY SCHOOL DISTRICT

**Schedule of Expenditures of Federal Awards
Year ended June 30, 2007**

Grantor/Program	CFDA Number	Grant Number	Expenditures
U.S. Department of Health and Human Services::			
Indirect:			
Iowa Department of Education:			
Head Start	93.600	N/A	<u>107,877</u>
Child Care and Development Block Grant	93.575	N/A	<u>33,031</u>
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	N/A	<u>7,471</u>
Tri-County Child & Family Development Council, Inc:			
Head Start	93.600	N/A	<u>496,000</u>
Department of Public Health:			
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	N/A	<u>1,360</u>
Total U.S. Department of Health and Human Services			<u>645,739</u>
Corporation for National and Community Service:			
Indirect:			
Iowa Department of Education:			
Learn and Serve America School and Community Based Programs	94.004	N/A	<u>9,776</u>
Total Corporation for National and Community Service			<u>9,776</u>
U.S. Department of Justice:			
Indirect:			
City of Waterloo, Iowa:			
Public Safety Partnership and Community Policing Grants	16.710	N/A	<u>24,557</u>
Direct:			
JROTC	Unknown	N/A	<u>101,446</u>
Total U.S. Department of Justice			<u>126,003</u>
Total			<u>\$ 9,964,348</u>

(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.

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 accompanying 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, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 28, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Waterloo Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Waterloo Community School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Waterloo Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Waterloo Community School District's financial statements that is more than inconsequential will not be prevented or detected by Waterloo Community School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Waterloo Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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 or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 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.

Waterloo Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Waterloo Community School District's responses and, accordingly, we express no opinion on them.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Waterloo Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

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

January 28, 2008

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, 2007. 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 OMB Circular A-133 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 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, 2007.

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 but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Waterloo Community School District's internal control over compliance.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Waterloo Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Waterloo Community School District's responses and, accordingly, we express no opinion on them.

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.

January 28, 2008

WATERLOO COMMUNITY SCHOOL DISTRICT

**Schedule of Findings and Questioned Costs
Year ended June 30, 2007**

Part I: Summary of the Independent Auditors' Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) The audit did not disclose any significant deficiencies in internal control over financial reporting.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) The audit did not disclose any significant deficiencies in internal control over major programs.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
 - CFDA Number 84.357 - Reading First State Grants
 - CFDA Number 84.367 - Improving Teacher Quality State Grant
- (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, 2007**

Part II: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

No matters were reported.

WATERLOO COMMUNITY SCHOOL DISTRICT

**Schedule of Findings and Questioned Costs
Year ended June 30, 2007**

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

No matters were reported.

WATERLOO COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs Year ended June 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting

- IV-A-07 Certified Budget - Disbursements during the year ended June 30, 2007 exceeded the amounts budgeted in the support services, noninstructional programs and other expenditures areas.
- Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.
- Response - The District did not exceed its total spending authority for the year ended June 30, 2007 and will amend its budget by functional area as required to be in compliance with the Code of Iowa.
- Conclusion - Response accepted.
- IV-B-07 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-07 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-07 Business Transactions - No business transactions between the District and District officials or employees were noted.
- IV-E-07 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-07 Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.
- IV-G-07 Certified Enrollment - The number of basic resident students reported to the Iowa Department of Education on line 7 of the Certified Enrollment Certification Form for October 2006 was overstated. The District's certified enrollment count on line 1 was overstated by 75 students due to a calculation error on a worksheet which included open enrolled and tuition in students in the District's enrollment count used on the Certified Enrollment Certification Form. This resulted in overstating the total actual enrollment at line 7 by 75 students.
- Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.
- Response - We will contact the Iowa Department of Education and the Department of Management.
- Conclusion - Response accepted.

- IV-H-07 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-07 Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education