

**WATERLOO COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008**

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Introductory Section

Board of Education and School District Officials

At June 30, 2008

Name	Title	Term Expires
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Board of Education
(Before September, 2007 Election)

Pam Miller	President	September, 2007
Bernice Richard	Vice President	September, 2009
Judy Fossell	Board Member	September, 2009
Don Hanson	Board Member	September, 2007
Michael Kindschi	Board Member	September, 2009
Barb Opheim	Board Member	September, 2008
Lyle Schmitt	Board Member	September, 2008

(After September, 2007 Election)

Bernice Richard	President	September, 2009
Barb Opheim	Vice President	September, 2008
Judy Fossell	Board Member	September, 2009
Michael Kindschi	Board Member	September, 2009
Pam Miller	Board Member	September, 2010
Lyle Schmitt	Board Member	September, 2008
Mike Young	Board Member	September, 2010

Officials

Dr. Dewitt Jones	Superintendent	Retired June 30, 2008
Sharon Miller	District Secretary	2008
Michael Coughlin	District Treasurer	2008
Steve Weidner	Attorney	Indefinite
Edgar Bittle	Attorney	Indefinite

Financial Section



Independent Auditor's Report

Board of Education
Waterloo Community School District
Waterloo, Iowa

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Waterloo Community School District, Waterloo, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these 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 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 the Waterloo Community School District at June 30, 2008, 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 a report dated November 13, 2008 on our consideration of the Waterloo Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of those reports 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. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on Pages 4 through 13 and 37 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 the Waterloo Community School District's basic financial statements. The financial statements for the three years ended June 30, 2007 (which are not presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements. The supplementary information on Pages 38 through 47, including the Schedule of Expenditures of Federal Awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, 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.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
November 13, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Waterloo Community School District provides this discussion and analysis of the District's financial performance and provides an overall review of the District's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the District's 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 \$105,637,803 (net assets). Of this amount \$26,420,917 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The General Fund cash and pooled investments increased \$4,991,842 and the General Fund balance increased \$4,315,847.
- The General Fund Unspent Balance Ratio which measures the percent of Authorized Budget Unspent Balance improved from 0.20% to 5.32%. This was achieved through expenditure reductions and a School Budget Review Committee (SBRC) award of Modified Allowable Growth for expenditures of staffing a new elementary building.
- The State of Iowa granted a 4% allowable growth rate for fiscal year 2008, but through declining enrollment the District only realized 2.66% funding. The State previously granted 4% allowable growth in fiscal year 2007, 4% for 2006, 2% for 2005 and 2% for 2004.
- By State Legislative action, the Local Option Sales and Service Tax (LOSST) which had been voter approved in every county, was changed to a state tax, School Infrastructure Local Option (SILO). The one-cent sales tax will be in effect until 2029 and subject to review and extension. The state collections will be received by the districts based upon enrollment times an estimated three-year average which will reduce the actual funds received approximately 20%, but guarantees the longevity and ability for the District to bond against the proceeds for future facility projects.
- On June 1, 2006, the District issued \$35,000,000 SILO 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 SILO or the issuance of bonds in the future.
- Remodeling of Lowell Elementary School was completed on schedule and the school was reopened August, 2008. \$2.6 million completed the remodeling after \$4.9 million was expended in 2006. The District has started construction of Logan Middle and Kittrell Elementary Schools to open August, 2009 and McKinstry Elementary School to be completed December, 2009. All three are new facilities to replace existing educational centers.
- 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. Currently, three new facilities are under construction.

Walter 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
Bunger 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	2004-2008	Remodel Building
Poyner Elementary	2006-2007	New Building
East High School	2006-2007	Auditorium Project
West High School	2006-2007	Locker Room Project
East High School	2007-2008	Locker Room Project
West High School	2008-2009	Auditorium Project
Logan Middle School	2008-2009	New Building
Kittrell Elementary School	2008-2009	New Building
McKinstry Elementary School	2008-2009	New Building

- 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 report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent 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 relate to one another.

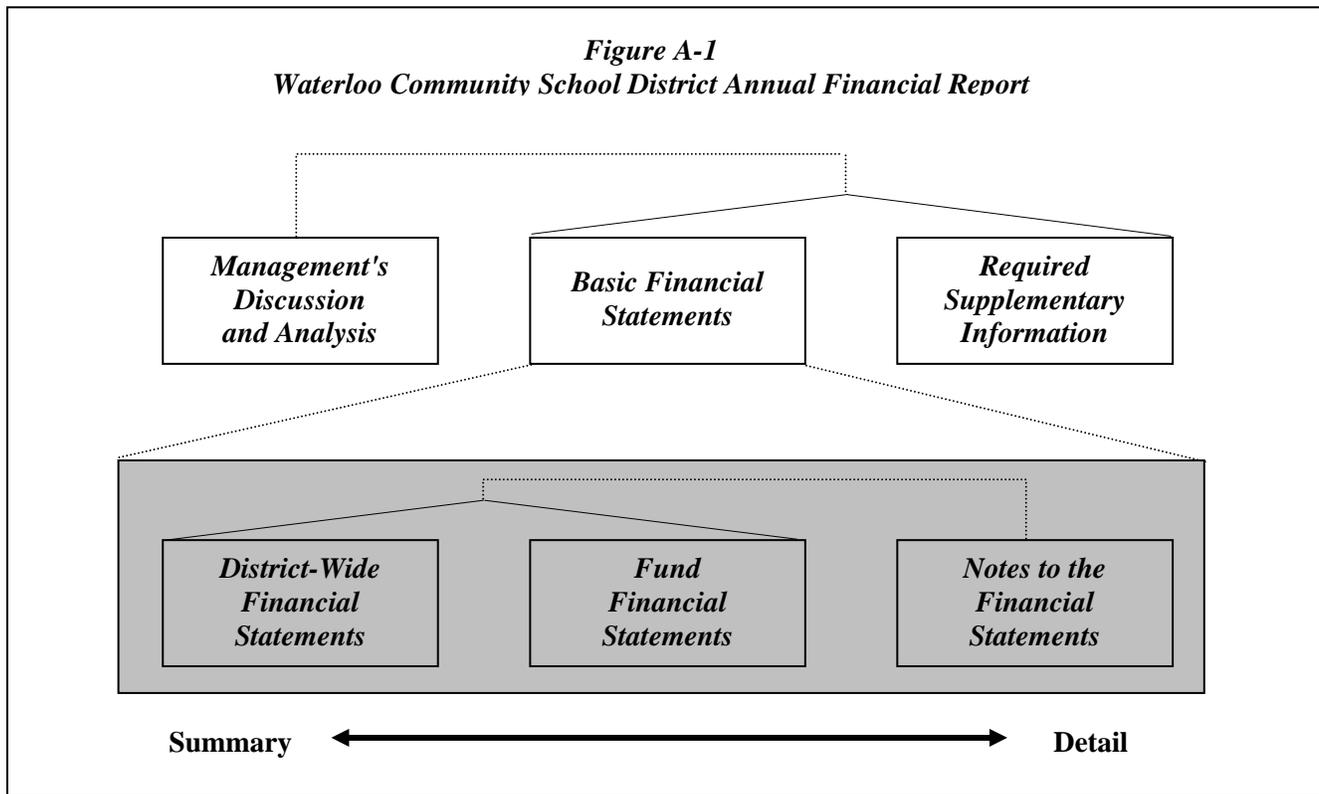


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents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

Figure A-2 Major Features of the District-Wide and Fund Financial Statements				
	District-Wide Statements	Fund 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 and internal services	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and agency 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 • Statement of revenue, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenue, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	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 revenue and expenses during year, regardless of when cash is received or paid	Revenue 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 during the year or soon thereafter	All revenue 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

District-Wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two District-wide statements report the District's *net assets* and how they have changed. Net assets equal the difference between the District's assets and liabilities and, are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional nonfinancial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax 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 District's school nutrition program is included here.

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 accounting for student activity funds or to show that it is properly using certain revenue such as federal grants.

The District has three kinds of 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 fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

- The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects Fund and Debt Service Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenue, expenditures and changes in fund balances.

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 District-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 currently has enterprise funds for food service and day care.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenue, expenses and changes in net assets and a statement of cash flows.

Fiduciary Funds: The District is the trustee, or fiduciary, for assets that belong to others. These funds include one Agency Fund.

- Agency Fund - These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

Financial Analysis of the District as a Whole

Net Assets - Figure A-3 below provides a summary of the District’s net assets for the year ended June 30, 2008 compared to June 30, 2007. See Note 12 to the financial statements for an explanation of the restatement of net assets at June 30, 2007.

**Figure A-3
Condensed Statement of Net Assets**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total District</u>		<u>Total Change 2008-07</u>
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	
Current and other assets	\$ 89,506,286	\$ 81,222,152	\$ 575,153	\$ 779,456	\$ 90,081,439	\$ 82,001,608	9.9%
Capital assets	<u>106,010,602</u>	<u>94,834,360</u>	<u>1,480,099</u>	<u>1,568,822</u>	<u>107,490,701</u>	<u>96,403,182</u>	11.5
Total Assets	<u>\$ 195,516,888</u>	<u>\$ 176,056,512</u>	<u>\$ 2,055,252</u>	<u>\$ 2,348,278</u>	<u>\$ 197,572,140</u>	<u>\$ 178,404,790</u>	10.7
Current liabilities	\$ 91,499,272	\$ 50,583,856	\$ 50,065	\$ 52,868	\$ 91,549,337	\$ 50,636,724	80.7
Long-term liabilities	<u>385,000</u>	<u>36,158,541</u>	<u>—</u>	<u>—</u>	<u>385,000</u>	<u>36,158,541</u>	(98.9)
Total Liabilities	<u>\$ 91,884,272</u>	<u>\$ 86,742,397</u>	<u>\$ 50,065</u>	<u>\$ 52,868</u>	<u>\$ 91,934,337</u>	<u>\$ 86,795,265</u>	5.9
Net Assets:							
Invested in capital assets, net of related debt	\$ 70,824,777	\$ 59,445,819	\$ 1,480,099	\$ 1,568,822	\$ 72,304,876	\$ 61,014,641	18.5
Restricted	6,912,010	4,142,513	—	—	6,912,010	4,142,513	66.9
Unrestricted	<u>25,895,829</u>	<u>25,725,783</u>	<u>525,088</u>	<u>726,588</u>	<u>26,420,917</u>	<u>26,452,371</u>	(0.1)
Total Net Assets	<u>\$ 103,632,616</u>	<u>\$ 89,314,115</u>	<u>\$ 2,005,187</u>	<u>\$ 2,295,410</u>	<u>\$ 105,637,803</u>	<u>\$ 91,609,525</u>	15.3

The District's combined net assets were 15.3% greater at June 30, 2008 than June 30, 2007. The increase occurred in the governmental activities as a result of approximately \$14,000,000 increase in investments in capital assets, net of related debt.

Restricted net assets increased \$2,769,497, or approximately 67% over the prior year.

Unrestricted net assets decreased \$31,454, or approximately 0.1%.

Changes in Net Assets - Figure 4-A shows the changes in net assets for the year ended June 30, 2008.

Figure A-4
Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total District</u>		<u>Total Change 2008-07</u>
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	
Revenue							
Program Revenue							
Charges for services	\$ 2,609,319	\$ 3,266,871	\$ 1,392,545	\$ 1,527,440	\$ 4,001,864	\$ 4,794,311	(16.5)%
Operating grants	17,304,704	18,273,695	3,221,701	3,065,463	20,526,405	21,339,158	(3.8)
Capital grants	—	813,510	73,164	—	73,164	813,510	(91.0)
General Revenue							
Property tax	35,029,885	33,929,877	—	—	35,029,885	33,929,877	3.2
Local option sales tax	11,182,161	9,896,764	—	—	11,182,161	9,896,764	13.0
State formula aid	50,099,117	43,698,035	—	—	50,099,117	43,698,035	14.6
Other	<u>1,835,942</u>	<u>2,525,246</u>	<u>14,669</u>	<u>45,254</u>	<u>1,850,611</u>	<u>2,570,500</u>	28.0
Total Revenue	<u>118,061,128</u>	<u>112,403,998</u>	<u>4,702,079</u>	<u>4,638,157</u>	<u>122,763,207</u>	<u>117,042,155</u>	4.9
Expenses							
Instruction	67,780,145	66,680,442	—	—	67,780,145	66,680,442	1.6
Pupil and instructional services	5,677,334	5,667,882	—	—	5,677,334	5,667,882	0.2
Administrative and business	9,794,755	9,500,539	—	—	9,794,755	9,500,539	3.1
Maintenance and operations	9,648,700	9,948,569	—	—	9,648,700	9,948,569	(3.0)
Transportation	2,983,845	3,323,520	—	—	2,983,845	3,323,520	(10.2)
Other	<u>7,728,089</u>	<u>7,236,885</u>	<u>5,107,302</u>	<u>5,364,208</u>	<u>12,835,391</u>	<u>12,601,093</u>	1.9
Total Expenses	<u>103,612,868</u>	<u>102,357,837</u>	<u>5,107,302</u>	<u>5,364,208</u>	<u>108,720,170</u>	<u>107,722,045</u>	0.9
Other Financing Sources (Uses)							
Loss on disposal of capital assets	(14,759)	—	—	—	(14,759)	—	
Transfers in	—	—	115,000	142,717	115,000	142,717	
Transfers out	<u>(115,000)</u>	<u>(142,717)</u>	<u>—</u>	<u>—</u>	<u>(115,000)</u>	<u>(142,717)</u>	
Total Other Financing Sources (Uses)	<u>(129,759)</u>	<u>(142,717)</u>	<u>115,000</u>	<u>142,717</u>	<u>(14,759)</u>	<u>—</u>	
Change in Net Assets	<u>\$ 14,318,501</u>	<u>\$ 9,903,444</u>	<u>\$ (290,223)</u>	<u>\$ (583,334)</u>	<u>\$ 14,028,278</u>	<u>\$ 9,320,110</u>	

Governmental Activities

Revenue for governmental activities was \$118,061,128 and expenses were \$103,612,868, which amounted to an increase in net assets of \$14,318,501. The following table presents the total and net cost of the District's major governmental activities: instruction, pupil and instructional services, administrative and business, maintenance and operations, transportation and other expenses.

**Figure A-5
Total and Net Cost of Governmental Activities**

	Total		Change	Total		Change
	Total Cost of Services			Net Cost of Services		
	2008	2007	2007-08	2008	2007	2007-08
Instruction	\$ 67,780,145	\$ 66,680,442	1.6%	\$ 52,905,336	\$ 49,228,677	7.5%
Pupil and instructional services	5,677,334	5,667,882	0.2	5,677,334	5,667,882	0.2
Administrative and business	9,794,755	9,500,539	3.1	9,791,005	9,500,539	3.1
Maintenance and operations	9,648,700	9,948,569	(3.0)	8,938,424	9,810,005	(8.9)
Transportation	2,983,845	3,323,520	(10.2)	2,705,742	3,163,867	(14.5)
Other	<u>7,728,089</u>	<u>7,254,885</u>	1.9	<u>3,681,004</u>	<u>2,650,291</u>	38.9
Total	<u>\$ 103,612,868</u>	<u>\$ 102,375,837</u>	1.2	<u>\$ 83,698,845</u>	<u>\$ 80,021,261</u>	4.6

- The total cost of all governmental activities was \$103,612,868, an increase of 1.2% from 2006-07.
- The cost financed by users of the District's programs was \$83,698,845.

Business-Type Activities

Revenue 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 revenue by \$290,223 for 2007-08. In 2006-07 expenses exceeded revenue by \$583,334.
- Charges for services in the School Nutrition Fund represent 29.6% of total revenue compared to 34.3% for 2006-07. This represents the amount paid by students/staff for daily food service.
- Federal and state reimbursement for meals, including payments for free and reduced lunches, and commodities provided to the District was \$3,221,701, or 68.5% 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 previously noted, the Waterloo Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported combined fund balances of \$33,535,740, above last year's ending fund balances of \$30,868,471. The main reason for the increase in combined fund balances in 2008 was less facilities acquisition and construction spending, combined with other cost reductions and revenue increases.

Over 98.3% 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 of \$328,318 and 2) prepaid expenses of \$239,887.

Governmental Fund Highlights

The **General Fund** is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the general fund was \$6,103,836 while total fund balance increased to \$6,659,577.

The fund balance of the District's general fund improved by \$4,315,847, or 184.1% during the current fiscal year. Key factors in this improvement are as follows:

- Budget reductions to not replace 12 FTE of teachers that retired in 2006-07.
- The District realized savings in hiring lower experienced staff of 35 FTE teaching positions from retiring and non-returning staff of 2006-07.
- Board action to increase the Instructional Support Levy, which has brought additional revenue support of \$1.2 million to educational programs.
- Budget practices to methodically monitor expenditures and prevent budget overages.

The **Capital Projects Fund** had a total fund balance of \$19,579,153 compared to \$22,750,375 in 2006-07. The revenue to support the fund is generated from LOSST, which has 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 LOSST program through June, 2019. Under the original LOSST 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 District's annual revenue to approximately \$8 million per year. Also, the Iowa legislature in March, 2008 has enacted the LOSST program as permanent throughout the state, rather than individually by county approval and is now SILO tax. SILO is extended to June, 2029 and will 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 Fund Highlights

The focus of the 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 2007-08.

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 Assets and Debt Administration

Capital Assets

At June 30, 2008, the District had invested \$107,490,701, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, equipment and furniture and construction in progress. (See Figure A-6). Depreciation expense was \$3,178,131 for Governmental Activities and \$221,613 for Business-Type Activities.

Governmental Activities account for \$106,010,602 of the District's capital assets with the remainder of \$1,480,099 in the Business-Type Activities.

Construction in progress of \$29,094,635 was for Poyner, Lowell, Kittrell and McKinstry Elementary Schools, Central and Logan Middle Schools, and East and West High School projects.

FIGURE A-6
Capital Assets, Net of Depreciation

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total District</u>		<u>Total Change 2008-07</u>
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	
Land and improvements	\$ 3,038,467	\$ 2,938,957	\$ —	\$ —	\$ 3,038,467	\$ 2,938,957	3.4%
Construction in progress	29,094,635	24,350,435	—	—	29,094,635	24,350,435	19.5
Buildings and improvements	65,173,454	58,948,722	—	—	65,173,454	58,948,722	10.6
Equipment and furniture	<u>8,704,046</u>	<u>8,596,246</u>	<u>1,480,099</u>	<u>1,568,822</u>	<u>10,184,145</u>	<u>10,165,068</u>	0.2
Total	<u>\$ 106,010,602</u>	<u>\$ 94,834,360</u>	<u>\$ 1,480,099</u>	<u>\$ 1,568,822</u>	<u>\$ 107,490,701</u>	<u>\$ 96,403,182</u>	11.5

The increase from 2006-07 to 2007-08 is the completion of and start of several new construction projects. The amount of construction in progress increased by \$4,744,200 and buildings and improvements increased by \$6,224,732. The value of projects under construction during the summer months increased over last year.

Construction in progress activities during 2007-08 included:

- Renovation at Lowell Elementary
- New construction at Poyner Elementary
- New construction at Kittrell Elementary
- New construction at McKinstry Elementary
- New construction at Logan Middle School
- New Parking Lot at Central Middle School
- Renovation of East High School auditorium
- Renovation of West High School locker rooms

Construction in progress activities during 2006-07 included:

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

Long-Term Debt

At June 30, 2008, the District had no general obligation bonds outstanding. The District has not had general obligation bonded debt in the last ten years.

More detailed information on the District's capital assets and long-term debt can be found in Notes 5 and 6 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 late 2008, the United States and the world are experiencing financial upheaval and it is affecting Iowa revenue. The Governor has recently announced a 1.5% across-the-board cut of \$948,000 in state aid, of which \$768,000 will not reduce District budget authority. However, the Iowa Legislature will soon meet to determine if the planned 4% increase in allowable growth funding for 2009-10 will remain intact. A reduction in allowable growth will not only reduce cash received, but reduce the budget spending total.
- Even at 4% allowable growth increases, growth in employee wages and benefits has outpaced state funding to schools. All bargaining unit contracts are two-year contracts and do not allow for renegotiation if state funding is reduced. 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 2008-09. Overhead costs, such as heating and vehicle fuel 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. The District enrollment stabilized in fall 2008, but is still expected to see further decline. Future enrollment stability is a critical element in maintaining a sound financial foundation.
- Due to budget constraints in spring 2008, the District voted to close the Longfellow Elementary building. Rational included the fact that the elementary student population did not require all of the current facilities and of the elementary buildings not yet remodeled, Longfellow area ranked lower in current plans of development. The principal, support staff and ten teaching positions were eliminated to reduce the expenditure budget. In future plans, the facility needs of the District will contribute to budget decisions.
- Effective July 1, 2008, an incremental increase in 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) Statement 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 2008-09.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for 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

Statement of Net Assets

At June 30, 2008

	Governmental Activities	Business- Type Activities	Total
Assets			
Cash and Cash Equivalents			
ISCAP	\$ 5,040,750	\$ —	\$ 5,040,750
Other	41,954,188	386,124	42,340,312
Receivables, Net of Allowance for Uncollectible Amounts			
Property Taxes			
Current year delinquent.....	482,106	—	482,106
Succeeding year	37,614,552	—	37,614,552
Accounts	2,406,853	47,464	2,454,317
ISCAP accrued interest.....	24,479	—	24,479
Due from other governments	1,743,471	7,451	1,750,922
Inventories and prepaid expenses.....	239,887	134,114	374,001
Capital assets, net of accumulated depreciation	<u>106,010,602</u>	<u>1,480,099</u>	<u>107,490,701</u>
Total Assets	<u>\$ 195,516,888</u>	<u>\$ 2,055,252</u>	<u>\$ 197,572,140</u>
Liabilities			
Accounts payable	\$ 3,734,971	\$ 1,639	\$ 3,736,610
Salaries and benefits payable	8,813,937	48,426	8,862,363
Accrued interest payable.....	138,540	—	138,540
Deferred Revenue			
Succeeding year property taxes	37,614,552	—	37,614,552
Other	101,502	—	101,502
ISCAP warrants payable	5,000,000	—	5,000,000
ISCAP accrued interest payable.....	1,917	—	1,917
ISCAP unamortized premiums	85,750	—	85,750
Long-Term Liabilities			
Portion Due Within One Year			
Early retirement payable	617,917	—	617,917
Compensated absences	204,361	—	204,361
Revenue bonds payable	35,185,825	—	35,185,825
Portion Due After One Year			
Early retirement payable	<u>385,000</u>	<u>—</u>	<u>385,000</u>
Total Liabilities	<u>91,884,272</u>	<u>50,065</u>	<u>91,934,337</u>
Net Assets			
Invested in capital assets, net of related debt . Restricted For			
Management levy.....	1,003,804	—	1,003,804
Physical plant and equipment levy.....	4,969,089	—	4,969,089
Other special revenue purposes	939,117	—	939,117
Unrestricted	<u>25,895,829</u>	<u>525,088</u>	<u>26,420,917</u>
Total Net Assets	<u>103,632,616</u>	<u>2,005,187</u>	<u>105,637,803</u>
Total Liabilities and Net Assets	<u>\$ 195,516,888</u>	<u>\$ 2,055,252</u>	<u>\$ 197,572,140</u>

See accompanying notes to the financial statements.

Statement of Activities

Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenue			Net (Expenses), Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Activities	Total
Governmental Activities							
Instruction							
Regular instruction	\$ 47,240,543	\$ 237,806	\$ 8,487,006	\$ —	\$ (38,515,731)	\$ —	\$ (38,515,731)
Special instruction	17,730,513	255,213	4,080,727	—	(13,394,573)	—	(13,394,573)
Vocational instruction	198,980	—	16,990	—	(181,990)	—	(181,990)
Other instruction	2,610,109	1,797,067	—	—	(813,042)	—	(813,042)
Total Instruction	<u>67,780,145</u>	<u>2,290,086</u>	<u>12,584,723</u>	<u>—</u>	<u>(52,905,336)</u>	<u>—</u>	<u>(52,905,336)</u>
Support Services							
Student services	2,481,700	—	—	—	(2,481,700)	—	(2,481,700)
Instructional staff services	3,195,634	—	—	—	(3,195,634)	—	(3,195,634)
General administration services	1,168,855	—	—	—	(1,168,855)	—	(1,168,855)
School administration services	5,717,386	—	3,750	—	(5,713,636)	—	(5,713,636)
Business and central administration services	2,908,514	—	—	—	(2,908,514)	—	(2,908,514)
Operation and maintenance	9,648,700	313,505	396,771	—	(8,938,424)	—	(8,938,424)
Transportation services	2,983,845	5,728	272,375	—	(2,705,742)	—	(2,705,742)
Total Support Services	<u>28,104,634</u>	<u>319,233</u>	<u>672,896</u>	<u>—</u>	<u>(27,112,505)</u>	<u>—</u>	<u>(27,112,505)</u>
Noninstructional Programs	<u>27,082</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(27,082)</u>	<u>—</u>	<u>(27,082)</u>
Other Expenditures							
Long-term debt interest	1,461,175	—	—	—	(1,461,175)	—	(1,461,175)
AEA flow through	4,047,085	—	4,047,085	—	—	—	—
Depreciation (unallocated)	2,192,747	—	—	—	(2,192,747)	—	(2,192,747)
Total Other Expenditures	<u>7,701,007</u>	<u>—</u>	<u>4,047,085</u>	<u>—</u>	<u>(3,653,922)</u>	<u>—</u>	<u>(3,653,922)</u>
Total Governmental Activities	<u>103,612,868</u>	<u>2,609,319</u>	<u>17,304,704</u>	<u>—</u>	<u>(83,698,845)</u>	<u>—</u>	<u>(83,698,845)</u>
Business-Type Activities							
Noninstructional Programs							
Nutrition services	4,854,338	1,378,972	3,056,892	73,164	—	(345,310)	(345,310)
Day care services	252,964	13,573	164,809	—	—	(74,582)	(74,582)
Total Business-Type Activities	<u>5,107,302</u>	<u>1,392,545</u>	<u>3,221,701</u>	<u>73,164</u>	<u>—</u>	<u>(419,892)</u>	<u>(419,892)</u>
Total	<u>\$ 108,720,170</u>	<u>\$ 4,001,864</u>	<u>\$ 20,526,405</u>	<u>\$ 73,164</u>	<u>(83,698,845)</u>	<u>(419,892)</u>	<u>(84,118,737)</u>
General Revenue							
Property taxes levied for general purposes					35,029,885	—	35,029,885
Local option taxes levied for capital outlay					11,182,161	—	11,182,161
Unrestricted state grants					50,099,117	—	50,099,117
Unrestricted investment earnings					1,835,942	14,669	1,850,611
Total General Revenue					<u>98,147,105</u>	<u>14,669</u>	<u>98,161,774</u>
Other Financing Sources (Uses)							
Loss on disposal of capital assets					(14,759)	—	(14,759)
Transfers					(115,000)	115,000	—
Total Other Financing Sources (Uses)					<u>(129,759)</u>	<u>115,000</u>	<u>(14,759)</u>
Change in Net Assets					14,318,501	(290,223)	14,028,278
Net Assets - Beginning of Year					89,314,115	2,295,410	91,609,525
Net Assets - End of Year					<u>\$ 103,632,616</u>	<u>\$ 2,005,187</u>	<u>\$ 105,637,803</u>

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

At June 30, 2008

	General	Capital Projects	All Other Nonmajor	Total
Assets				
Cash and Pooled Investments				
ISCAP	\$ 5,040,750	\$ —	\$ —	\$ 5,040,750
Other	14,191,434	19,709,530	8,053,224	41,954,188
Receivables, Net of Allowance for Uncollectible Amounts				
Property Taxes				
Current year delinquent.....	428,233	—	53,873	482,106
Succeeding year	33,222,139	—	4,392,413	37,614,552
Accounts	2,391,929	—	14,924	2,406,853
ISCAP accrued interest.....	24,479	—	—	24,479
Due from other governments	—	1,743,471	—	1,743,471
Inventories	213,595	—	—	213,595
Prepaid expenses.....	13,828	9,715	2,749	26,292
Total Assets	\$ 55,526,387	\$ 21,462,716	\$ 12,517,183	\$ 89,506,286
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 1,641,565	\$ 1,883,563	\$ 209,843	\$ 3,734,971
Salaries and benefits payable	8,813,937	—	—	8,813,937
Early retirement payable.....	—	—	617,917	617,917
ISCAP warrants payable	5,000,000	—	—	5,000,000
ISCAP accrued interest payable.....	1,917	—	—	1,917
ISCAP unamortized premium	85,750	—	—	85,750
Deferred Revenue				
Succeeding year property taxes ...	33,222,139	—	4,392,413	37,614,552
Other	101,502	—	—	101,502
Total Liabilities	48,866,810	1,883,563	5,220,173	55,970,546
Fund Balances				
Reserved For				
Prepays and inventories	227,423	9,715	2,749	239,887
Categorical aid	328,318	—	—	328,318
Unreserved, Reported in				
General fund, designated for buses	621,500	—	—	621,500
General fund	5,482,336	—	—	5,482,336
Capital projects fund	—	19,569,438	—	19,569,438
Nonmajor special revenue funds ..	—	—	7,294,261	7,294,261
Total Fund Balances	6,659,577	19,579,153	7,297,010	33,535,740
Total Liabilities and Fund Balances	\$ 55,526,387	\$ 21,462,716	\$ 12,517,183	\$ 89,506,286

See accompanying notes to the financial statements.

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

At June 30, 2008

Total Fund Balances for Governmental Funds (Page 16).....		\$ 33,535,740
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		106,010,602
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)
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.		
Bonds payable	\$ (35,000,000)	
Bond premium.....	(185,825)	
Early retirement.....	(385,000)	
Compensated absences	<u>(204,361)</u>	<u>(35,775,186)</u>
 Net Assets of Governmental Activities (Page 14)		 <u>\$ 103,632,616</u>

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

Year Ended June 30, 2008

	General	Capital Projects	All Other Nonmajor	Total
Revenue				
Local Sources				
Local taxes.....	\$ 31,103,773	\$ 11,182,161	\$ 3,926,112	\$ 46,212,046
Other.....	2,190,103	1,318,299	1,855,263	5,363,665
Intermediate sources.....	10,330	—	—	10,330
State sources.....	60,636,010	—	3,185	60,639,195
Federal sources.....	5,910,793	—	—	5,910,793
Total Revenue.....	<u>99,851,009</u>	<u>12,500,460</u>	<u>5,784,560</u>	<u>118,136,029</u>
Expenditures				
Current				
Instruction				
Regular instruction.....	46,342,930	—	895,550	47,238,480
Special instruction.....	17,777,102	—	—	17,777,102
Vocational instruction.....	225,193	—	—	225,193
Other instruction.....	890,825	—	1,834,301	2,725,126
Total Instruction.....	<u>65,236,050</u>	<u>—</u>	<u>2,729,851</u>	<u>67,965,901</u>
Support Services				
Student services.....	2,487,719	—	—	2,487,719
Instructional staff services.....	3,094,384	—	79,528	3,173,912
General administration services.....	891,942	—	269,410	1,161,352
School administration services..	5,526,241	—	193,904	5,720,145
Business and central administration services.....	2,734,822	—	31,731	2,766,553
Operation and maintenance of plant services.....	8,391,969	—	894,670	9,286,639
Transportation services.....	2,992,450	—	2,395	2,994,845
Total Support Services.....	<u>26,119,527</u>	<u>—</u>	<u>1,471,638</u>	<u>27,591,165</u>
Noninstructional Programs.....	17,500	—	9,582	27,082
Other Expenditures				
Facilities acquisition and construction.....	—	14,008,287	57,855	14,066,142
Long-Term Debt				
Interest and fiscal charges	—	495	1,663,396	1,663,891
AEA flowthrough.....	4,047,085	—	—	4,047,085
Total Other Expenditures	<u>4,047,085</u>	<u>14,008,782</u>	<u>1,721,251</u>	<u>19,777,118</u>
Total Expenditures	<u>95,420,162</u>	<u>14,008,782</u>	<u>5,932,322</u>	<u>115,361,266</u>
Revenue Over (Under)				
Expenditures	<u>4,430,847</u>	<u>(1,508,322)</u>	<u>(147,762)</u>	<u>2,774,763</u>
Other Financing Sources (Uses)				
Operating transfers in.....	—	—	1,662,900	1,662,900
Operating transfers out.....	(115,000)	(1,662,900)	—	(1,777,900)
Proceeds from disposal of capital assets.....	—	—	7,506	7,506
Total Other Financing Sources (Uses)	<u>(115,000)</u>	<u>(1,662,900)</u>	<u>1,670,406</u>	<u>(107,494)</u>
Net Change in Fund Balances.....	<u>4,315,847</u>	<u>(3,171,222)</u>	<u>1,522,644</u>	<u>2,667,269</u>
Fund Balance - Beginning of Year, as previously reported.....	2,541,510	24,184,448	4,142,513	30,868,471
Prior period adjustment (Note 12) ...	(197,780)	(1,434,073)	1,631,853	—
Fund Balance - Beginning of Year, as Restated.....	2,343,730	22,750,375	5,774,366	30,868,471
Fund Balance - End of Year.....	<u>\$ 6,659,577</u>	<u>\$ 19,579,153</u>	<u>\$ 7,297,010</u>	<u>\$ 33,535,740</u>

See accompanying notes to the financial statements.

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

Year Ended June 30, 2008

Change in Fund Balances - Total Governmental Funds (Page 18) \$ 2,667,269

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

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

Capital outlays.....	\$ 14,399,958	
Depreciation expense	<u>(3,178,131)</u>	11,221,827

The net book value of the capital assets disposed of during the year.		(45,585)
--	--	----------

Prior year revenue not collected for several months after year end that was not considered available in the governmental funds and was deferred. However, it was recorded as revenue in the prior year statement of activities.		(74,901)
---	--	----------

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
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Some expenses reported in the statements 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>347,175</u>
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Change in Net Assets of Governmental Activities (Page 15) **\$ 14,318,501**

Statement of Net Assets - Proprietary Funds

At June 30, 2008

	Total Nonmajor Enterprise Funds
Assets	
Cash and cash equivalents	\$ 386,123
Receivables, Net of Allowance for Uncollectible Amounts	
Accounts	47,465
Intergovernmental	7,451
Inventories and prepaid items	134,114
Capital assets, net of accumulated depreciation	<u>1,480,099</u>
Total Assets	<u>\$ 2,055,252</u>
Liabilities and Net Assets	
Liabilities	
Accounts payable	\$ 1,639
Salaries and benefits payable	48,426
Total Liabilities	<u>50,065</u>
Net Assets	
Invested in capital assets, net of related debt	1,480,099
Unrestricted	<u>525,088</u>
Total Net Assets	<u>2,005,187</u>
Total Liabilities and Net Assets	<u>\$ 2,055,252</u>

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

Year Ended June 30, 2008

	Total Nonmajor Enterprise Funds
Revenue	
Local Sources	
Charges for service.....	\$ 1,366,838
Other receipts	<u>25,707</u>
Total Operating Revenue	<u>1,392,545</u>
Operating Expenses	
Noninstructional Programs	
Salaries	1,604,156
Benefits	817,917
Purchased services.....	2,439,052
Other	24,564
Depreciation.....	<u>221,613</u>
Total Operating Expenses	<u>5,107,302</u>
Loss From Operations	<u>(3,714,757)</u>
Nonoperating Revenue	
State sources.....	130,431
Federal sources.....	3,091,270
Interest on investments	<u>14,669</u>
Total Nonoperating Revenue	<u>3,236,370</u>
Loss Before Other Financing Sources	<u>(478,387)</u>
Other Financing Sources	
Capital contributions	73,164
Transfers in.....	<u>115,000</u>
Total Other Financing Sources	<u>188,164</u>
Net Loss	(290,223)
Net Assets - Beginning of Year	<u>2,295,410</u>
Net Assets - End of Year	<u>\$ 2,005,187</u>

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2008

	Total Nonmajor Enterprise Funds
Cash Flows Used in Operating Activities	
Cash received from sale of lunches and breakfasts.....	\$ 1,319,374
Cash received from other	25,707
Cash payments to employees for services.....	(2,415,969)
Cash payments to suppliers for goods and services	<u>(2,268,263)</u>
Net Cash Used in Operating Activities	<u>(3,339,151)</u>
Cash Flows Provided by Noncapital Financing Activities	
State grants received.....	130,431
Federal grants received.....	3,151,148
Transfers	<u>115,000</u>
Net Cash Provided by Noncapital Financing Activities	<u>3,396,579</u>
Cash Flows Used in Capital and Related Financing Activities	
Acquisition of capital assets	<u>(59,727)</u>
Cash Flows From Investing Activities	
Interest on investments	<u>14,669</u>
Net Increase in Cash and Cash Equivalents	12,370
Cash and Cash Equivalents - Beginning of Year	<u>373,753</u>
Cash and Cash Equivalents - End of Year	<u>\$ 386,123</u>
Reconciliation of Loss From Operations to Net Cash Used in Operating Activities	
Loss from operations	\$ (3,714,757)
Adjustments to Reconcile Loss From Operations to Net Cash Used in Operating Activities	
Commodities used.....	296,995
Depreciation	221,613
Changes in Assets and Liabilities	
Increase in accounts receivable.....	(47,464)
Increase in inventories and prepaid items.....	(92,734)
Decrease in accounts payable	(8,908)
Increase in salaries and benefits payable	<u>6,104</u>
Net Cash Used in Operating Activities	<u>\$ (3,339,151)</u>

Noncash Investing, Capital and Financing Activities

During the year ended June 30, 2008, the District received \$296,995 of federal commodities.

The District purchased \$73,164 of equipment from the capital projects fund, resulting in cash paid for equipment of \$59,727 for the year ended June 30, 2008.

Statement of Fiduciary Net Assets - Fiduciary Fund ---

At June 30, 2008

	Agency
Assets	
Cash and Pooled Investments	<u>\$ 145,553</u>
 Liabilities	
Due to Other Governments.....	<u>\$ 145,553</u>

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

The Waterloo Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The District also either operates or sponsors various adult education programs. These courses include remedial education and vocational and recreation courses. The geographic area served includes the cities of Waterloo, Evansdale, Elk Run Heights, Raymond, Gilbertville and a portion of Cedar Falls, Iowa, and the surrounding predominate agricultural territory in Black Hawk County. The District is governed by a Board of Education whose members are elected on a nonpartisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Government Accounting Standards Board.

Reporting Entity

For financial reporting purposes, the Waterloo Community School 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 Waterloo Community School 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.

Basis of Presentation

District-Wide Financial Statements

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

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

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

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (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 revenue are reported instead as general revenue.

Fund Financial Statements

Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the District-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 had the following major governmental funds:

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

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

The District's proprietary funds are the Enterprise - School Nutrition Fund and the Enterprise - Day Care Fund. The School Nutrition Fund is used to account for the food service operations of the District, and the Day Care Fund is used to account for the day care operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the Agency Fund 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.

Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenue is 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. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within 60 days after year end.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Property tax, intergovernmental revenue (shared revenue, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be 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 revenue. 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 revenue.

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 Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents

The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and nonnegotiable certificates of deposit which are stated at cost.

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Property Taxes Receivable

Property taxes in the governmental funds are accounted for using the modified accrual basis of accounting.

Property taxes receivable are recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property taxes receivable represent unpaid taxes for the current and prior years. The succeeding year property taxes 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 District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property taxes receivable have been recorded, the related revenue is deferred in both the District-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% monthly penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008; and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

Due From Other Governments

Due from other governments represents amounts due from the State of Iowa, various shared revenue, grants and reimbursements from other governments.

Food and Supplies Inventories

Inventories are valued at cost using the first-in, first-out (FIFO) method for purchased items and contributed value for government commodities. At June 30, 2008, food and supplies inventory valued at \$134,114 were on hand. General fund supplies inventory is accounted for under the consumption method. Expenditures are recognized when the inventory is used.

Capital Assets

Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset useful lives are not capitalized. Capital assets 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
Furniture and Equipment	
School Nutrition Fund equipment	1,000
Day Care Fund equipment	1,000
Other furniture and equipment	1,000

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	7 - 50 Years
Improvements other than buildings	20 - 30 Years
Furniture and equipment	5 - 25 Years

Salaries and Benefits Payable

Payroll and related expenditures for employees with annual contracts corresponding to the current school year, which are payable in July, August and September have been accrued as liabilities.

Deferred Revenue

Although certain revenue is measurable, it is not available. Available means collected within the current period or expected to be collected 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 collected 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 taxes receivable and other receivables not collected within 60 days after year end.

Compensated Absences

District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the District-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2008. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-Term Obligations

In the District-wide financial statements, 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 balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets

In the District-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.

Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements in the noninstructional programs area exceeded the amount budgeted.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Estimates and Assumptions

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, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(2) Cash and Investments

The District's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

Credit risk - The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investors Service.

At June 30, 2008, the District had investments in the Iowa Schools Joint Investment Trust Diversified Portfolio of \$2,949. The investments are valued at amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

(3) Interfund Transfers

The detail of the interfund transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer From	Amount
Debt Service	Capital Projects	\$1,662,900
Enterprise Day Care	General	115,000

Transfers generally move revenue from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

Notes to the Financial Statements

(4) Iowa School Cash Anticipation Program

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. 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. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2008 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable	Unamortized Premium
2008-09A	6/26/08	6/25/09	<u>\$ 5,040,750</u>	<u>\$ 24,479</u>	<u>\$ 5,000,000</u>	<u>\$ 1,917</u>	<u>\$ 85,750</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, 2008 is as follows:

Series	Balance - Beginning of Year	Advances Received	Advances Repaid	Balance - End of Year
2007-08A	<u>\$ —</u>	<u>\$ 7,400,000</u>	<u>\$ 7,400,000</u>	<u>\$ —</u>

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2007-08A	4.5%	5.45%
2008-09A	3.5	1.89

Notes to the Financial Statements

(5) Capital Assets

Capital assets activity for the year ended June 30, 2008 was as follows:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 1,457,441	\$ —	\$ 9,072	\$ 1,448,369
Construction in progress	24,350,435	12,708,340	7,964,140	29,094,635
Total Capital Assets Not Being Depreciated.....	<u>25,807,876</u>	<u>12,708,340</u>	<u>7,973,212</u>	<u>30,543,004</u>
Capital Assets Being Depreciated				
Buildings and improvements	91,712,296	7,812,016	321,040	99,203,272
Improvements other than buildings	2,707,176	198,101	8,946	2,896,331
Furniture and equipment	22,033,729	1,684,953	478,377	23,240,305
Total Capital Assets Being Depreciated.....	<u>116,453,201</u>	<u>9,695,070</u>	<u>808,363</u>	<u>125,339,908</u>
Less Accumulated Depreciation For				
Buildings and improvements	32,763,574	1,583,132	316,888	34,029,818
Improvements other than buildings	1,225,660	89,518	8,945	1,306,233
Furniture and equipment	13,437,483	1,505,481	406,705	14,536,259
Total Accumulated Depreciation	<u>47,426,717</u>	<u>3,178,131</u>	<u>732,538</u>	<u>49,872,310</u>
Net Total Capital Assets Being Depreciated.....	<u>69,026,484</u>	<u>6,516,939</u>	<u>75,825</u>	<u>75,467,598</u>
Net Governmental Activities				
Capital Assets	<u>\$ 94,834,360</u>	<u>\$ 19,225,279</u>	<u>\$ 8,049,037</u>	<u>\$ 106,010,602</u>
Business-Type Activities				
Furniture, equipment, vehicles	\$ 2,740,294	\$ 132,891	\$ —	\$ 2,873,185
Less accumulated depreciation	1,171,473	221,613	—	1,393,086
Net Business-Type Activities				
Capital Assets	<u>\$ 1,568,821</u>	<u>\$ (88,722)</u>	<u>\$ —</u>	<u>\$ 1,480,099</u>

Notes to the Financial Statements

(5) Capital Assets

The District began maintaining records of capital assets at cost on 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, 2008 are as follows:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Pre July 1, 1997.....	\$ 45,289,669	\$ —	\$ 436,001	\$ 44,853,668
General fund revenue.....	11,426,516	78,203	—	11,504,719
Capital projects fund revenue.....	80,504,737	14,181,432	47,801	94,638,368
Special revenue funds revenue..	4,915,082	117,004	271,002	4,761,084
Donations	125,073	—	—	125,073
	<u>\$ 142,261,077</u>	<u>\$ 14,376,639</u>	<u>\$ 754,804</u>	<u>\$ 155,882,912</u>

The changes in capital assets used in the operation of governmental funds by function and activity as of June 30, 2008 are as follows:

Function and Activity	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Education.....	\$ 136,063,482	\$ 14,182,340	\$ 740,945	\$ 149,504,877
Transportation	239,661	9,964	8,000	241,625
Maintenance	3,390,354	92,086	5,859	3,476,581
Administration.....	2,567,580	92,249	—	2,659,829
	<u>\$ 142,261,077</u>	<u>\$ 14,376,639</u>	<u>\$ 754,804</u>	<u>\$ 155,882,912</u>

The capital assets used in the operation of governmental funds by function and activity as of June 30, 2008 are as follows:

Function and Activity	Construction in Progress	Land and Site Improve- ments	Buildings	Machinery and Equipment	Total
Education.....	\$ 29,094,635	\$ 3,823,664	\$ 98,287,250	\$ 18,299,328	\$ 149,504,877
Transportation	—	7,000	52,000	182,625	241,625
Maintenance	—	458,636	516,364	2,501,581	3,476,581
Administration.....	—	55,400	347,658	2,256,771	2,659,829
	<u>\$ 29,094,635</u>	<u>\$ 4,344,700</u>	<u>\$ 99,203,272</u>	<u>\$ 23,240,305</u>	<u>\$ 155,882,912</u>

Notes to the Financial Statements

(5) Capital Assets

Depreciation expense was charged as follows:

Governmental Activities

Instruction					
Regular.....				\$	219,235
Special					26,718
Vocational					69,366
Other					97,589
Support Services					
Student.....					3,285
Instructional staff.....					43,495
General administration					11,846
School administration.....					21,971
Business and central administration					162,108
Operation and maintenance of plant					329,571
Transportation					200
					<u>985,384</u>
Unallocated depreciation.....					<u>2,192,747</u>
Total Governmental Activities Depreciation Expense					<u>\$ 3,178,131</u>

Business-Type Activities

School Nutrition.....				\$	213,267
Day Care					8,346
Total Business-Type Activities Depreciation Expense					<u>\$ 221,613</u>

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Revenue bonds	\$ 35,000,000	\$ —	\$ —	\$ 35,000,000	\$ 35,000,000
Revenue bonds premium ...	388,541	—	202,716	185,825	185,825
Compensated absences.....	166,536	204,361	166,536	204,361	204,361
Early retirement benefit	1,155,000	232,917	385,000	1,002,917	617,917
Total	<u>\$ 36,710,077</u>	<u>\$ 437,278</u>	<u>\$ 754,252</u>	<u>\$ 36,393,103</u>	<u>\$ 36,008,103</u>

Notes to the Financial Statements

(6) Long-Term Liabilities

Revenue Bonds Payable

At June 30, 2008, the District's local option sales and services tax revenue bond indebtedness was as follows:

Year Ending June 30,	Bonds Issued June 1, 2006			
	Interest Rates	Principal	Interest	Total
2009.....	4.75%	<u>\$ 35,000,000</u>	<u>\$ 1,662,500</u>	<u>\$ 36,662,500</u>

The District has pledged future local option sales and services tax revenue to repay the \$35,000,000 of bonds issued.

The local option sales and services tax revenue bonds were issued for the purpose of financing the construction of certain school facilities and related capital improvements in the District and paying the costs of issuance of the notes. The bonds are payable only from the proceeds and local option sales and services tax revenue received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. The District made payments of interest of \$1,662,500 while local option sales and services tax revenue was \$11,182,161 for the year ended June 30, 2008.

The bonds require a separate account be maintained for the District to set aside monthly allocations to make the next scheduled interest payment. The District had not established such an account as of June 30, 2008.

The District did not exceed its legal debt margin at June 30, 2008, as follows:

Total Assessed Valuation	<u>\$ 3,338,386,589</u>
Debt limit, 5% of total assessed valuation	\$ 166,919,329
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>\$ 131,919,329</u>

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 3.7% (2006 and 2007) to 3.9% (2008) of their annual salary and the District is required to contribute 5.75% (2006 and 2007) to 6.05% (2008) of annual payroll for the years ended June 30, 2008, 2007 and 2006. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2008, 2007, and 2006 were \$3,339,429, \$3,107,066, and \$2,964,708, respectively, equal to the required contributions for each year.

Notes to the Financial Statements

(8) Contingent Liability for Sick Leave Time

District employees accumulate sick leave hours for subsequent use. These accumulations do not vest and therefore are not recognized as liabilities of the District until used by employees. The District's contingent liability for employee sick leave at June 30, 2008 was approximately \$5,400,000.

(9) Risk Management

The Waterloo Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency Support

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$4,047,085 for the year ended June 30, 2008, and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(11) Early Retirement Plan

The District offers a voluntary early retirement plan to its teachers and administrators. Eligible employees must have completed at least 15 years of full-time service to the District and must have reached the age of 55 on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education.

The District provides a supplemental benefit for administrators. To be eligible for the benefit, the administrator must have attained age 55 by August 1, have completed 15 years of service with the District in which 10 of those years were served as an administrator and have submitted application for retirement by March 31. Benefits are computed as a percent of the salary based on age at retirement. The administrators are also 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.

At June 30, 2008, 62 employees had requested early retirement and the District's obligation was \$1,002,917, of which \$617,917 was due in July, 2008 and \$385,000 in July, 2009.

Notes to the Financial Statements

(12) Restatement of Beginning Fund Balance

During the year ended June 30, 2008, the District reallocated some of its previously spent funds in order to more appropriately match them with their related source of revenue. There was no net effect on overall fund balance.

	General	Capital Projects	Nonmajor Funds			Total Nonmajor Funds	Total Governmental Funds
			Management Levy	Student Activities	Property, Plant and Equipment Levy		
Fund balance as originally stated.....	\$ 2,541,510	\$ 24,184,448	\$ 1,402,082	\$ 976,351	\$ 1,764,080	\$ 4,142,513	\$ 30,868,471
Reallocate wages and benefits paid to employees to move into new school buildings	257,835	(257,835)	—	—	—	—	—
Reallocate construction costs originally shown to be paid from the property, plant and equipment levy instead of local option sales and service tax	—	(1,176,238)	—	—	1,176,238	1,176,238	—
Reallocate asbestos removal costs from property, plant and equipment levy to the general fund.....	(455,615)	—	—	—	455,615	455,615	—
Fund Balance - as Restated	<u>\$ 2,343,730</u>	<u>\$ 22,750,375</u>	<u>\$ 1,402,082</u>	<u>\$ 976,351</u>	<u>\$ 3,395,933</u>	<u>\$ 5,774,366</u>	<u>\$ 30,868,471</u>

(13) Commitments

The District has entered into agreements with various companies for 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 for several major projects which are primarily being funded by the one cent local option sales and service tax. The building projects are Lowell Elementary School, Kittrell Elementary, McKinstry Elementary, Poyner Elementary School, East High School and West High School. At June 30, 2008, the remaining commitment on these contracts was approximately \$38,500,000.

(14) Subsequent Events

The District entered into several construction and purchase contracts after June 30, 2008 committing to projects totaling approximately \$720,000.

Required Supplementary Information

Schedule of Budgetary Comparison of Revenue, Expenditures and Changes in Balances - Budget to Actual - All Governmental Funds and Proprietary Fund

Year Ended June 30, 2008

	Actual		Total	Original Budget	Final Budget	Over (Under) Budget
	Governmental Fund Types - Actual	Proprietary Fund Type - Actual				
Revenue						
Local sources.....	\$ 51,575,711	\$ 1,407,214	\$ 52,982,925	\$ 52,262,163	\$ 52,262,163	\$ (720,762)
Intermediate sources .	10,330	—	10,330	—	—	(10,330)
State sources	60,639,195	130,431	60,769,626	60,498,382	60,498,382	(271,244)
Federal sources	5,910,793	3,091,270	9,002,063	8,910,000	8,910,000	(92,063)
Total Revenue	<u>118,136,029</u>	<u>4,628,915</u>	<u>122,764,944</u>	<u>121,670,545</u>	<u>121,670,545</u>	<u>(1,094,399)</u>
Expenditures						
Instruction.....	67,965,901	—	67,965,901	70,410,000	70,410,000	(2,444,099)
Support services	27,591,165	—	27,591,165	31,392,000	34,044,000	(6,452,835)
Noninstructional programs	27,082	5,107,302	5,134,384	4,580,000	5,000,000	134,384
Other expenditures.....	19,777,118	—	19,777,118	19,281,540	23,179,585	(3,402,467)
Total Expenditures	<u>115,361,266</u>	<u>5,107,302</u>	<u>120,468,568</u>	<u>125,663,540</u>	<u>132,633,585</u>	<u>(12,165,017)</u>
Revenue Over (Under) Expenditures.....	2,774,763	(478,387)	2,296,376	(3,992,995)	(10,963,040)	(13,259,416)
Other Financing Sources (Net)	<u>(107,494)</u>	<u>188,164</u>	<u>80,670</u>	<u>—</u>	<u>—</u>	<u>80,670</u>
Revenue Under Expenditures and Other Financing Uses	2,667,269	(290,223)	2,377,046	(3,992,995)	(10,963,040)	<u>\$(13,340,086)</u>
Balance - Beginning of Year, as restated (Note 12).....	30,868,471	2,295,410	33,163,881	40,659,050	40,659,050	
Balance - End of Year	<u>\$ 33,535,740</u>	<u>\$ 2,005,187</u>	<u>\$ 35,540,927</u>	<u>\$ 36,666,055</u>	<u>\$ 29,696,010</u>	

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 and statutorily prescribed procedures. The District's budget is prepared on the modified accrual basis.

Encumbrances pertain to commitments related to unperformed contracts for goods or services. Used in budgeting, encumbrances are not expenditures or liabilities. Encumbrances represent the estimated amount of expenditures which may result if the unperformed contracts in process are completed. The District is not required to use encumbrance accounting, and accordingly, commitments related to unperformed contracts for goods or services have not been recorded by the District.

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, 2008, disbursements in the noninstructional programs area exceeded the amounts budgeted.

Other Supplementary Information

Combining Balance Sheet - Nonmajor Governmental Funds

At June 30, 2008

	<u>Special Revenue Funds</u>			Total Nonmajor Govern- mental Funds
	Management Account	Student Account	PPEL Fund	
Assets				
Cash and pooled investments	\$ 1,999,320	\$ 983,548	\$ 5,070,356	\$ 8,053,224
Receivables, Net of Allowance for Uncollectible Amounts				
Property Taxes				
Current year delinquent	24,094	—	29,779	53,873
Succeeding year	2,000,000	—	2,392,413	4,392,413
Other	99	1,197	13,628	14,924
Prepays	<u>2,573</u>	<u>176</u>	<u>—</u>	<u>2,749</u>
Total Assets	<u>\$ 4,026,086</u>	<u>\$ 984,921</u>	<u>\$ 7,506,176</u>	<u>\$ 12,517,183</u>
Liabilities and Equities				
Liabilities				
Accounts payable	\$ 19,365	\$ 45,804	\$ 144,674	\$ 209,843
Early retirement payable	617,917	—	—	617,917
Deferred Revenue				
Succeeding year property taxes	<u>2,000,000</u>	<u>—</u>	<u>2,392,413</u>	<u>4,392,413</u>
Total Liabilities	<u>2,637,282</u>	<u>45,804</u>	<u>2,537,087</u>	<u>5,220,173</u>
Equities				
Reserved for prepaids	2,573	176	—	2,749
Unreserved, undesignated fund balance	<u>1,386,231</u>	<u>938,941</u>	<u>4,969,089</u>	<u>7,294,261</u>
Total Equities	<u>1,388,804</u>	<u>939,117</u>	<u>4,969,089</u>	<u>7,297,010</u>
Total Liabilities and Equities	<u>\$ 4,026,086</u>	<u>\$ 984,921</u>	<u>\$ 7,506,176</u>	<u>\$ 12,517,183</u>

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

Year Ended June 30, 2008

	Special Revenue Funds				Debt Service	Total
	Management Account	Student Activity	PPEL Fund	Total Special Revenue		
Revenue						
Local Sources						
Property taxes	\$ 1,749,978	\$ —	\$ 2,176,134	\$ 3,926,112	\$ —	\$ 3,926,112
Other.....	41,969	1,797,067	16,227	1,855,263	—	1,855,263
State sources	1,437	—	1,748	3,185	—	3,185
Total Revenue.....	<u>1,793,384</u>	<u>1,797,067</u>	<u>2,194,109</u>	<u>5,784,560</u>	<u>—</u>	<u>5,784,560</u>
Expenditures						
Instruction						
Regular instruction	895,550	—	—	895,550	—	895,550
Other instruction	—	1,834,301	—	1,834,301	—	1,834,301
Total Instruction.....	<u>895,550</u>	<u>1,834,301</u>	<u>—</u>	<u>2,729,851</u>	<u>—</u>	<u>2,729,851</u>
Support Services						
Instructional staff services ...	79,528	—	—	79,528	—	79,528
General administration services.....	79,601	—	189,809	269,410	—	269,410
School administration services.....	193,904	—	—	193,904	—	193,904
Business and central administration services	31,731	—	—	31,731	—	31,731
Operation and maintenance	521,381	—	373,289	894,670	—	894,670
Transportation services	2,395	—	—	2,395	—	2,395
Facilities acquisition and construction.....	—	—	57,855	57,855	—	57,855
Interest on long-term debt ...	496	—	—	496	1,662,900	1,663,396
Total Support Services.....	<u>909,036</u>	<u>—</u>	<u>620,953</u>	<u>1,529,989</u>	<u>1,662,900</u>	<u>3,192,889</u>
Noninstructional Programs....	9,582	—	—	9,582	—	9,582
Total Expenditures.....	<u>1,814,168</u>	<u>1,834,301</u>	<u>620,953</u>	<u>4,269,422</u>	<u>1,662,900</u>	<u>5,932,322</u>
Revenue Over (Under) Expenditures.....	<u>(20,784)</u>	<u>(37,234)</u>	<u>1,573,156</u>	<u>1,515,138</u>	<u>(1,662,900)</u>	<u>(147,762)</u>
Other Financing Sources						
Proceeds from disposal of capital assets.....	7,506	—	—	7,506	—	7,506
Operating transfers in	—	—	—	—	1,662,900	1,662,900
Total Other Financing Sources	<u>7,506</u>	<u>—</u>	<u>—</u>	<u>7,506</u>	<u>1,662,900</u>	<u>1,670,406</u>
Net Change in Fund Balance	<u>(13,278)</u>	<u>(37,234)</u>	<u>1,573,156</u>	<u>1,522,644</u>	<u>—</u>	<u>1,522,644</u>
Fund Balance - Beginning of Year, as previously reported	1,402,082	976,351	1,764,080	4,142,513	—	4,142,513
Prior period adjustment (Note 12).....	—	—	1,631,853	1,631,853	—	1,631,853
Fund Balance - Beginning of Year (as Restated)	<u>1,402,082</u>	<u>976,351</u>	<u>3,395,933</u>	<u>5,774,366</u>	<u>—</u>	<u>5,774,366</u>
Fund Balance - End of Year	<u>\$ 1,388,804</u>	<u>\$ 939,117</u>	<u>\$ 4,969,089</u>	<u>\$ 7,297,010</u>	<u>\$ —</u>	<u>\$ 7,297,010</u>

Combining Balance Sheet - Nonmajor Proprietary Funds

At June 30, 2008

	School Nutrition	Day Care	Total Nonmajor Enterprise Funds
Assets			
Cash and pooled investments	\$ 245,176	\$ 140,947	\$ 386,123
Receivables, Net of Allowance for Uncollectible Amounts			
Accounts	47,465	—	47,465
Intergovernmental	2,504	4,947	7,451
Inventories and prepaid items	134,114	—	134,114
Capital assets, net of accumulated depreciation	<u>1,327,395</u>	<u>152,704</u>	<u>1,480,099</u>
Total Assets	<u>\$ 1,756,654</u>	<u>\$ 298,598</u>	<u>\$ 2,055,252</u>
Liabilities and Net Assets			
Liabilities			
Accounts payable	\$ 1,639	\$ —	\$ 1,639
Salaries and benefits payable	<u>18,030</u>	<u>30,396</u>	<u>48,426</u>
Total Liabilities	<u>19,669</u>	<u>30,396</u>	<u>50,065</u>
Net Assets			
Invested in capital assets, net of related debt .	1,327,395	152,704	1,480,099
Unrestricted	<u>409,590</u>	<u>115,498</u>	<u>525,088</u>
Total Net Assets	<u>1,736,985</u>	<u>268,202</u>	<u>2,005,187</u>
Total Liabilities and Net Assets	<u>\$ 1,756,654</u>	<u>\$ 298,598</u>	<u>\$ 2,055,252</u>

Combining Schedule of Revenue, Expenses and Changes in Net Assets - Nonmajor Proprietary Funds

Year Ended June 30, 2008

	School Nutrition	Day Care	Total Nonmajor Enterprise Funds
Revenue			
Local Sources			
Charges for service	\$ 1,366,838	\$ —	\$ 1,366,838
Other receipts	12,134	13,573	25,707
Total Operating Revenue	<u>1,378,972</u>	<u>13,573</u>	<u>1,392,545</u>
Operating Expenses			
Noninstructional Programs			
Salaries.....	1,463,105	141,051	1,604,156
Benefits.....	729,489	88,428	817,917
Purchased services	2,437,794	1,258	2,439,052
Other.....	10,683	13,881	24,564
Depreciation	213,267	8,346	221,613
Total Operating Expenses	<u>4,854,338</u>	<u>252,964</u>	<u>5,107,302</u>
Loss From Operations	<u>(3,475,366)</u>	<u>(239,391)</u>	<u>(3,714,757)</u>
Nonoperating Revenue			
State sources.....	113,377	17,054	130,431
Federal sources.....	2,943,515	147,755	3,091,270
Interest on investments	12,527	2,142	14,669
Total Nonoperating Revenue.....	<u>3,069,419</u>	<u>166,951</u>	<u>3,236,370</u>
Loss Before Other Financing Sources	<u>(405,947)</u>	<u>(72,440)</u>	<u>(478,387)</u>
Other Financing Sources			
Capital contributions	73,164	—	73,164
Transfers in.....	—	115,000	115,000
Total Other Financing Sources	<u>73,164</u>	<u>115,000</u>	<u>188,164</u>
Net Income (Loss)	(332,783)	42,560	(290,223)
Net Assets - Beginning of Year	<u>2,069,768</u>	<u>225,642</u>	<u>2,295,410</u>
Net Assets - End of Year.....	<u>\$ 1,736,985</u>	<u>\$ 268,202</u>	<u>\$ 2,005,187</u>

Combining Statement of Cash Flows - Nonmajor Proprietary Funds

Year Ended June 30, 2008

	School Nutrition	Day Care	Total Nonmajor Enterprise Funds
Cash Flows Used in Operating Activities			
Cash received from sale of lunches and breakfasts....	\$ 1,319,374	\$ —	\$ 1,319,374
Cash received from other	12,134	13,573	25,707
Cash payments to employees for services.....	(2,183,096)	(232,873)	(2,415,969)
Cash payments to suppliers for goods and services ...	<u>(2,253,125)</u>	<u>(15,138)</u>	<u>(2,268,263)</u>
Net Cash Used in Operating Activities	<u>(3,104,713)</u>	<u>(234,438)</u>	<u>(3,339,151)</u>
Cash Flows Provided by Noncapital Financing Activities			
State grants received.....	113,377	17,054	130,431
Federal grants received.....	2,993,161	157,987	3,151,148
Transfers	<u>—</u>	<u>115,000</u>	<u>115,000</u>
Net Cash Provided by Noncapital Financing Activities.....	<u>3,106,538</u>	<u>290,041</u>	<u>3,396,579</u>
Cash Flows Used in Capital and Related Financing Activities			
Acquisition of capital assets	<u>(59,727)</u>	<u>—</u>	<u>(59,727)</u>
Cash Flows From Investing Activities			
Interest on investments	<u>12,527</u>	<u>2,142</u>	<u>14,669</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(45,375)	57,745	12,370
Cash and Cash Equivalents - Beginning of Year	<u>290,551</u>	<u>83,202</u>	<u>373,753</u>
Cash and Cash Equivalents - End of Year	<u>\$ 245,176</u>	<u>\$ 140,947</u>	<u>\$ 386,123</u>
Reconciliation of Loss From Operations to Net Cash Used in Operating Activities			
Loss from operations.....	\$ (3,475,366)	\$ (239,391)	\$ (3,714,757)
Adjustments to Reconcile Loss From Operations to Net Cash Used in Operating Activities			
Commodities used	296,995	—	296,995
Depreciation.....	213,267	8,346	221,613
Changes in Assets and Liabilities			
Increase in accounts receivable	(47,464)	—	(47,464)
Increase in inventories and prepaid items	(92,734)	—	(92,734)
Decrease in accounts payable	(8,908)	—	(8,908)
Increase (decrease) in salaries and benefits payable	<u>9,497</u>	<u>(3,393)</u>	<u>6,104</u>
Net Cash Used in Operating Activities	<u>\$ (3,104,713)</u>	<u>\$ (234,438)</u>	<u>\$ (3,339,151)</u>

Schedule of Changes in Individual Student Activity Accounts

Year Ended June 30, 2008

Account	Balance - Beginning of Year	Revenue	Expenditures	Balance - End of Year
High Schools				
East.....	\$ 79,135	\$ 312,483	\$ 265,950	\$ 125,668
West.....	325,913	799,332	903,994	221,251
Expo.....	19,588	26,716	24,970	21,334
Middle Schools				
Central	92,025	42,010	48,773	85,262
Hoover	70,514	117,589	113,469	74,634
Logan	12,259	20,969	16,514	16,714
Bunger	36,839	44,639	46,604	34,874
Elementary Schools				
Black Hawk	5,212	10,074	11,542	3,744
Cunningham.....	14,059	40,563	67,317	(12,695)
Edison	14,907	41,239	40,438	15,708
Irving	13,169	10,932	8,983	15,118
Kingsley	37,634	66,689	46,466	57,857
Kittrell	28,365	10,638	7,301	31,702
Lincoln.....	12,055	4,947	4,136	12,866
Longfellow.....	9,021	7,699	7,514	9,206
Lowell.....	27,799	15,914	19,553	24,160
Orange	25,126	35,233	33,552	26,807
McKinstry	71,793	30,434	28,875	73,352
Lou Henry	29,966	62,604	54,780	37,790
Poyner.....	47,179	56,264	50,634	52,809
Other.....	<u>3,793</u>	<u>40,099</u>	<u>32,936</u>	<u>10,956</u>
Total	<u>\$ 976,351</u>	<u>\$ 1,797,067</u>	<u>\$ 1,834,301</u>	<u>\$ 939,117</u>

Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund **——**

Year Ended June 30, 2008

	Balance - Beginning of Year	Additions	Deductions	Balance - End of Year
Assets				
Cash.....	<u>\$ 67,364</u>	<u>\$ 145,553</u>	<u>\$ 67,364</u>	<u>\$ 145,553</u>
Liabilities				
Due to Other Governments.....	<u>\$ 67,364</u>	<u>\$ 145,553</u>	<u>\$ 67,364</u>	<u>\$ 145,553</u>

Schedule of Revenue By Source and Expenditures By Function - All Governmental Fund Types (Modified Accrual Basis)

Years Ended June 30, 2008, 2007, 2006 and 2005

	2008	2007	2006	2005
Revenue				
Local Sources				
Local option.....	\$ 46,212,046	\$ 43,826,641	\$ 42,087,405	\$ 40,599,831
Other	5,363,665	5,803,902	4,545,891	3,374,140
Intermediate sources	10,330	2,215	2,725	131,022
State sources.....	60,639,195	55,888,686	52,891,722	49,774,462
Federal sources.....	<u>5,910,793</u>	<u>6,968,832</u>	<u>7,133,501</u>	<u>7,724,946</u>
Total	<u>\$ 118,136,029</u>	<u>\$ 112,490,276</u>	<u>\$ 106,661,244</u>	<u>\$ 101,604,401</u>
Expenditures				
Instruction				
Regular instruction	\$ 47,238,480	\$ 39,294,245	\$ 36,854,924	\$ 36,885,149
Special instruction.....	17,777,102	17,764,190	23,909,417	20,432,358
Vocational instruction...	225,193	1,238,916	1,441,783	1,225,442
Other instruction.....	2,725,126	7,171,142	2,610,481	3,065,679
Support Services				
Student services	2,487,719	2,828,831	2,995,164	2,950,960
Instructional staff services	3,173,912	2,776,296	1,744,630	2,650,565
General administration services	1,161,352	803,132	1,067,712	910,675
Building administration services	5,720,145	5,915,315	5,656,379	4,851,254
Business and central administration services	2,766,553	2,663,198	3,308,954	2,801,451
Operation and maintenance of plant services	9,286,639	9,769,436	8,244,959	9,447,732
Transportation services	2,994,845	3,333,897	3,234,530	2,742,655
Noninstructional programs	27,082	30,907	5,264	99,458
Other Expenditures				
Facilities acquisition	14,066,142	22,003,212	10,164,017	13,136,293
Long-Term Debt Interest and other charges.....	1,663,891	1,662,500	—	—
AEA flowthrough.....	<u>4,047,085</u>	<u>3,790,584</u>	<u>3,558,701</u>	<u>3,388,142</u>
Total	<u>\$ 115,361,266</u>	<u>\$ 121,045,801</u>	<u>\$ 104,796,915</u>	<u>\$ 104,587,813</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass- Through Number	Federal Expenditures
U.S. Department of Agriculture			
Pass-Through From Iowa Department of Education			
Child and Adult Care Food Program.....	10.558	FY 08	<u>\$ 6,311</u>
Child Nutrition Cluster			
School Breakfast Program	10.553	FY 08	467,467
National School Lunch Program - Food Donation (noncash).....	10.555	FY 08	296,995
National School Lunch Program.....	10.555	FY 08	2,146,984
Summer Food Service Program for Children	10.559	FY 08	<u>32,069</u>
Total Child Nutrition Cluster			<u>2,943,515</u>
Total U.S. Department of Agriculture.....			<u>2,949,826</u>
U.S. Department of Justice			
Pass-Through From City of Waterloo, Iowa			
Public Safety Partnership and Community Policing Grants.....	16.710	FY 08	<u>200,605</u>
U.S. Department of Education			
Direct			
Safe and Drug-Free Schools and Communities - National Programs.....	84.184	FY 08	<u>2,189</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 08	<u>5,695</u>
Indirect			
Pass-Through From Iowa Department of Education			
Title I Grants to Local Educational Agencies.....	84.010	FY 08	<u>2,697,232</u>
Career and Technical Education - Basic Grants to States	84.048	FY 08	<u>233,758</u>
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	FY 08	<u>82,845</u>
State Grants for Innovative Programs	84.298	FY 08	<u>15,560</u>
Reading First State Grants.....	84.357	FY 08	<u>333,387</u>
English Language Acquisition Grants.....	84.365	FY 08	<u>78,086</u>
Improving Teacher Quality State Grant.....	84.367	FY 08	<u>793,678</u>
Grants for State Assessments and Related Activities	84.369	FY 08	<u>71,358</u>
Total Pass-Through From Iowa Department of Education.....			<u>4,305,904</u>
Pass-Through From Area Education Agency 267			
Special Education - Grants to States.....	84.027	FY 08	<u>679,909</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass- Through Number	Federal Expenditures
U.S. Department of Education			
Indirect			
Pass-Through From Pathways Behavioral Services, Inc. Safe and Drug-Free Schools and Communities - State Grants.....	84.186	FY 08	\$ <u>56,071</u>
Pass-Through From Grant Wood Area Education Agency Education Technology State Grants.....	84.318	FY 08	<u>38,241</u>
Total U.S. Department of Education.....			<u>5,088,009</u>
U.S. Department of Health and Human Services			
Pass-Through From Department of Public Health Centers for Disease Control and Prevention			
Investigations and Technical Assistance.....	93.283	FY 08	<u>181</u>
Pass-Through From Iowa Department of Education			
Child Care and Development Block Grant	93.575	FY-08	<u>32,098</u>
Head Start.....	93.600	FY-08	<u>512,000</u>
Pass-Through From Tri-County Child and Family Development Council, Inc.			
Head Start	93.600	FY 08	<u>109,346</u>
Total U.S. Department of Health and Human Services			<u>653,625</u>
Corporation and National and Community Service			
Pass-Through From Iowa Department of Education			
Learn and Serve America School and Community Based Programs.....	94.004	FY 08	<u>3,444</u>
Total			<u>\$ 8,895,509</u>

Basis of Presentation

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

Subrecipients

The Waterloo Community School District provided no federal awards to subrecipients.

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

Board of Education
Waterloo Community School District
Waterloo, Iowa

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 the Waterloo Community School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated November 13, 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 the 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 the Waterloo Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Waterloo Community School District's internal control over financial reporting.

A control deficiency exists when the design or operation of the 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 the Waterloo Community School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood a misstatement of the Waterloo Community School District's financial statements that is more than inconsequential will not be prevented or detected by the 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 the 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 the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Waterloo Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Comments involving statutory and other legal matters about the Waterloo Community School District's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Waterloo Community School 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.

The 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 the 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 the 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



HOGAN - HANSEN

Mason City, Iowa
November 13, 2008

Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance

Board of Education
Waterloo Community School District
Waterloo, Iowa

Compliance

We have audited the compliance of the Waterloo Community School District 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, 2008. The Waterloo Community School District's major federal programs are identified in the summary of independent auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Waterloo Community School District's management. Our responsibility is to express an opinion on the 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 Nonprofit Organizations*. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Waterloo Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Waterloo Community School District's compliance with those requirements.

In our opinion, the 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, 2008.

Internal Control Over Compliance

The management of the Waterloo Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the 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 the District's internal control over compliance

A control deficiency in an entity'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 the entity's internal control that might be significant deficiencies or material weaknesses. We did identify a deficiency in internal control over compliance that we consider to be a material weakness as defined above and it is described in Finding 08-III-A in Part III of the accompanying Schedule of Findings and Questioned Costs.

The Waterloo Community School District's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on it.

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 the 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.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
November 13, 2008

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

Part I: Summary of the Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness identified? yes no

Significant deficiency identified not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

Material weakness identified? yes no

Significant deficiency identified not considered to be material weakness? yes none reported

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

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

Identification of major programs:

CFDA Numbers

84.027
93.600

Name of Federal Program or Cluster

Special Education Grants to States
Head Start

Clustered Programs

10.553
10.555
10.559

School Breakfast Program
National School Lunch Program
Summer Food Service Program
for Children

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes no

Part II: Findings Related to the Financial Statements

Significant Deficiencies - There were no matters reported.

Instances of Noncompliance - There were no current year reported instances of noncompliance.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

Part III: Findings and Questioned Costs for Federal Awards

Instances of Noncompliance

There were no reported instances of noncompliance.

Significant Deficiencies

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2008
U.S. Department of Agriculture
Passed through the Iowa Department of Education

08-III-A Inventory Control Over Food Service Inventory

Finding - The District did not reconcile perpetual inventory records with its physical inventory count for commodities and other breakfast and lunch supplies stored in its various cafeterias. Of the 14 items selected to count at East High School Cafeteria, 13 of them had differences between the physical count and the perpetual records which had not been corrected by the District. The result of the errors was not material to this major program.

Questioned Cost - None.

Auditor's Recommendation - The perpetual inventory records should be reconciled with a physical count on at least a semi-annual basis.

District's Response - This will be done.

Auditor's Conclusion - Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting

08-IV-A Certified Budget

Finding - Disbursements for the year ended June 30, 2008 exceeded the certified budget amounts in the noninstructional program area.

Auditor's Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

District's Response - The District did not exceed its total spending authority for the year ended June 30, 2008 and will amend its budget by functional area as required to be in compliance with the Code of Iowa.

Auditor's Conclusion - Response accepted.

08-IV-B Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

08-IV-C Travel Expense - No disbursements 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.

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

08-IV-E 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 ensure that coverage is adequate for current operations.

08-IV-F Board Minutes - No transactions were found that we believe should have been included in the Board minutes but were not.

08-IV-G Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.

08-IV-H Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted.

08-IV-I Certified Annual Report - The certified annual report was filed with the Iowa Department of Education.

08-IV-J Financial Condition

Finding - The fund listed below had the following deficit fund balance at June 30, 2008:

Student Activity	
Special Revenue Fund	
Cunningham Elementary	\$12,695

Auditor's Recommendation - The District should eliminate the deficit in order to return the fund to a sound financial position.

District's Response - Funds will be made available to eliminate the deficit.

Auditor's Conclusion - Response accepted.

08-IV-K Revenue Bonds - The District has not established the reserve account required by the revenue bond resolution. In addition, the required monthly transfers from the revenue account to the sinking account were not made by the District.

Auditor's Recommendation - The District should establish the reserve account in the amount required and make the monthly transfers to the sinking account as required by the bond resolution.

District's Response - We will establish a reserve account and begin making transfers to a sinking account.

Auditor's Conclusion - Response accepted.