

**WATERLOO COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2010**

Table of Contents

Board of Education and School District Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis (MD&A)	4-13
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	14
Statement of Activities	15
Governmental Fund Financial Statements	
Balance Sheet.....	16
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets...	17
Statement of Revenue, Expenditures and Changes in Fund Balances	18
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds to the Statements of Activities	19
Proprietary Fund Financial Statements	
Statement of Net Assets	20
Statement of Revenue, Expenses and Changes in Net Assets.....	21
Statement of Cash Flows.....	22
Fiduciary Fund Financial Statements	
Statement of Fiduciary Assets and Liabilities	23
Notes to the Financial Statements.....	24-38
Required Supplementary Information	
Schedule of Budgetary Comparison of Revenue, Expenditures and Changes in Balances - Budget to Actual - All Governmental Funds and Proprietary Fund	39
Schedule of Funding Progress for the Retiree Health Plan.....	40
Other Supplementary Information	
Nonmajor Governmental Funds	
Description of Funds.....	41
Combining Balance Sheet	42
Combining Statement of Revenue, Expenditures and Changes in Fund Balances.....	43
Nonmajor Proprietary Funds	
Description of Funds.....	44
Combining Balance Sheet	45
Combining Statement of Revenue, Expenses and Changes in Net Assets.....	46
Combining Statement of Cash Flows.....	47
Schedule of Changes in Individual Student Activity Accounts.....	48
Statement of Changes in Fiduciary Assets and Liabilities - Agency Fund	49
Schedule of Revenue By Source and Expenditures By Function - All Governmental Fund Types (Modified Accrual Basis)	50
Schedule of Expenditures of Federal Awards	51-53
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	54-55
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance	56-57
Schedule of Findings and Questioned Costs	58-61

Introductory Section

Board of Education and School District Officials

At June 30, 2010

Name	Title	Term Expires
Board of Education (Before September, 2009 Election)		
Bernice Richard	President	September, 2009
Pam Miller	Vice President	September, 2011
Judy Fossell (resigned October, 2008)	Board Member	September, 2009
Michael Kindschi	Board Member	September, 2009
Shanlee McNally (appointed October, 2008)	Board Member	September, 2009
Barb Opheim	Board Member	September, 2011
Lyle Schmitt	Board Member	September, 2011
Mike Young	Board Member	September, 2011
(After September, 2009 Election)		
Bernice Richard	President	September, 2013
Mike Young	Vice President	September, 2011
Sue Flynn	Board Member	September, 2011
David Meeks	Board Member	September, 2013
Shanlee McNally	Board Member	September, 2013
Barb Opheim	Board Member	September, 2011
Lyle Schmitt	Board Member	September, 2011
Officials		
Dr. Gary Norris	Superintendent	Indefinite
Sharon Miller	District Secretary	2010
Michael Coughlin	District Treasurer	2010
Steve Weidner	Attorney	Indefinite
Timothy Luce	Attorney	Indefinite

Financial Section



HOGAN ♦ HANSEN

A Professional Corporation

Certified Public Accountants and Consultants

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, 2010, 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, 2010, 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 December 22, 2010 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, budgetary comparison information and schedule of funding progress for the retiree health plan on pages 4 through 13, 39 and 40 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Waterloo Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the years ended June 30, 2009 and 2008 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The financial statements for year ended June 30, 2007 (which are not presented herein) were audited by other auditors in accordance with the standards referred to in the second paragraph of this report who expressed unqualified opinions on those financial statements. The supplementary information on pages 41 through 53, 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. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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
December 22, 2010

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, 2010. 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 \$116,043,003 (net assets). Of this amount \$4,131,581 (unrestricted net assets) may be used to meet the government’s ongoing obligations to citizens and creditors.
- The General Fund cash and pooled investments decreased \$1,744,661 and the General Fund balance decreased \$2,030,592 due to the Governor's 10% across-the-board cut for state equalization aid in October 2009.
- The General Fund Unspent Balance Ratio which measures the percent of Authorized Budget Unspent Balance improved from 6.52% to 8.39%. This was achieved through budget expenditure reductions.
- The State of Iowa granted a 2.0% allowable growth rate for fiscal year 2010, but through increased enrollment the District realized 2.5% funding. The State previously granted 4% allowable growth in fiscal year 2009, 4% for 2008, 4% for 2007 and 4% for 2006.
- By 2008 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, Secure an Advanced Vision for Education (SAVE). 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 May 1, 2009, the District issued \$46,400,000 of SAVE 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 SAVE revenue or the issuance of bonds in the future.
- The District has completed construction of Logan Middle (renamed George Washington Carver Academy) and Kittrell Elementary Schools to open August, 2009 and McKinstry (renamed Highland) Elementary School to open December, 2009. All three are new facilities to replace existing educational centers.
- Since the original LOSST/SAVE funding began in fiscal year 1999-2000, the District has constructed seven new elementary schools, completely remodeled two elementary schools and completed other significant projects.

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
George Washington Carver Academy	2008-2009	New Building
Kittrell Elementary School	2008-2009	New Building
Highland Elementary School	2008-2009	New Building
- The District property tax rate of \$16.46 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 *government-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 government-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, as well as presenting the schedule of funding progress for the retiree health plan.

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

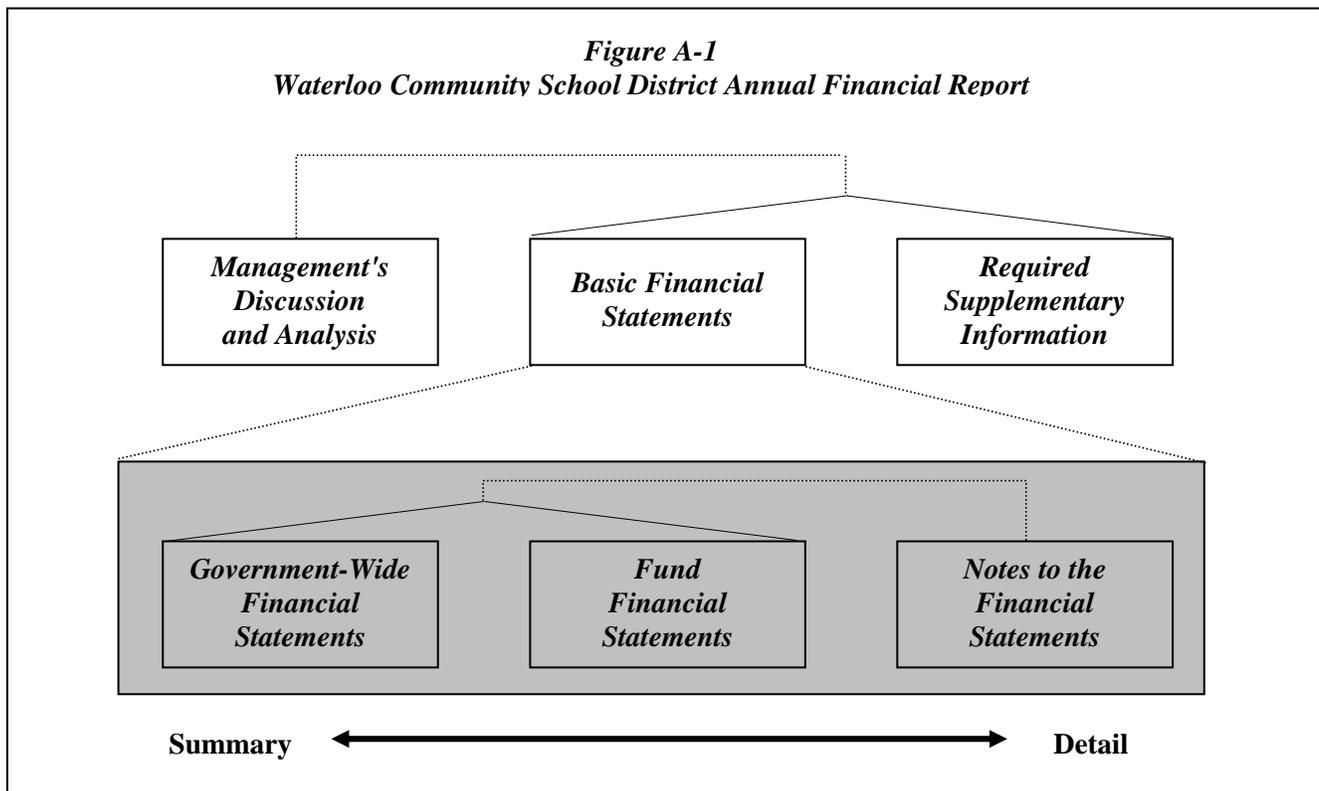


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-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 assets and liabilities • Statement of changes in fiduciary assets and liabilities
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

The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

Government-Wide Statements

The government-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 government-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 government-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 government-wide statements.

- The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District 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 government-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 assets and liabilities and a statement of changes in fiduciary assets and liabilities.

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, 2010 compared to June 30, 2009.

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total District</u>		<u>Total Change 2010-09</u>
	2010	2009	2010	2009	2010	2009	
Current and other assets	\$ 67,056,560	\$ 77,737,008	\$ 381,405	\$ 497,864	\$ 67,437,965	\$ 78,234,872	(13.8)%
Capital assets	<u>152,569,247</u>	<u>141,068,510</u>	<u>1,522,347</u>	<u>1,271,169</u>	<u>154,091,594</u>	<u>142,339,679</u>	8.3
Total Assets	<u>\$ 219,625,807</u>	<u>\$ 218,805,518</u>	<u>\$ 1,903,752</u>	<u>\$ 1,769,033</u>	<u>\$ 221,529,559</u>	<u>\$ 220,574,551</u>	0.4
Current liabilities	\$ 57,204,588	\$ 58,717,040	\$ 119,101	\$ 79,927	\$ 57,323,689	\$ 58,796,967	(2.5)
Long-term liabilities	<u>48,162,867</u>	<u>46,584,667</u>	<u>—</u>	<u>—</u>	<u>48,162,867</u>	<u>46,584,667</u>	3.4
Total Liabilities	<u>\$ 105,367,455</u>	<u>\$ 105,301,707</u>	<u>\$ 119,101</u>	<u>\$ 79,927</u>	<u>\$ 105,486,556</u>	<u>\$ 105,381,634</u>	0.1
Net Assets:							
Invested in capital assets, net of related debt	\$ 106,275,580	\$ 94,832,843	\$ 1,522,347	\$ 1,271,169	\$ 107,797,927	\$ 96,104,012	12.2
Restricted	4,113,495	3,317,761	—	—	4,113,495	3,317,761	24.0
Unrestricted	<u>3,869,277</u>	<u>15,353,207</u>	<u>262,304</u>	<u>417,937</u>	<u>4,131,581</u>	<u>15,771,144</u>	(73.8)
Total Net Assets	<u>\$ 114,258,352</u>	<u>\$ 113,503,811</u>	<u>\$ 1,784,651</u>	<u>\$ 1,689,106</u>	<u>\$ 116,043,003</u>	<u>\$ 115,192,917</u>	0.7

The District's combined net assets increased 0.7%, or approximately \$850,000, from the prior year. The largest portion of the District's net assets is invested in capital assets (e.g., land, infrastructure, intangibles, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets

Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$796,000, or 24%, over the prior year. The increase was primarily a result of a restriction for categorical funding being recognized on the government-wide statements.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased approximately \$11,640,000, or 73.8%. This reduction in unrestricted net assets was primarily a result of the District's increased General Fund expenditures.

Changes in Net Assets - Figure A-4 shows the changes in net assets for the year ended June 30, 2010 compared to the year ended June 30, 2009.

**Figure A-4
Changes in Net Assets**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total District</u>		<u>Total Change 2010-09</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	
Revenue							
Program Revenue							
Charges for							
services	\$ 2,812,987	\$ 2,858,213	\$ 1,378,956	\$ 1,475,139	\$ 4,191,943	\$ 4,333,352	(3.3)%
Operating grants	29,687,190	20,595,945	3,877,176	3,481,263	33,564,366	24,077,208	39.4
Capital grants	449,265	207,302	399,383	—	848,648	207,302	309.4
General Revenue							
Property taxes	38,677,332	37,544,209	—	—	38,677,332	37,544,209	3.0
Statewide sales, service and use tax	11,109,593	11,210,010	—	—	11,109,593	11,210,010	(0.9)
Unrestricted state grants	41,897,979	48,792,965	—	—	41,897,979	48,792,965	(14.1)
Other	96,319	774,649	1,819	1,366	98,138	776,015	(87.4)
Total Revenue	<u>124,730,665</u>	<u>121,983,293</u>	<u>5,657,334</u>	<u>4,957,768</u>	<u>130,387,999</u>	<u>126,941,061</u>	2.7
Program Expenses							
Instruction	83,646,154	71,902,814	—	—	83,646,154	71,902,814	16.3
Student and instructional staff services	7,073,640	6,544,556	—	—	7,073,640	6,544,556	8.1
Administrative and business	10,899,365	11,310,931	—	—	10,899,365	11,310,931	(3.6)
Operation and maintenance	13,996,548	11,812,523	—	—	13,996,548	11,812,523	18.5
Transportation	3,240,175	2,175,404	—	—	3,240,175	2,175,404	48.9
Other	5,060,242	8,305,870	5,621,789	5,333,849	10,682,031	13,639,719	(21.7)
Total Expenses	<u>123,916,124</u>	<u>112,052,098</u>	<u>5,621,789</u>	<u>5,333,849</u>	<u>129,537,913</u>	<u>117,385,947</u>	10.4
Excess (Deficiency)							
Before Transfers	814,541	9,931,195	35,545	(376,081)	850,086	9,555,114	(91.1)
Transfers	(60,000)	(60,000)	60,000	60,000	—	—	0.0
Change in Net Assets	754,541	9,871,195	95,545	(316,081)	850,086	9,555,114	(91.1)
Net Assets - Beginning of Year	<u>113,503,811</u>	<u>103,632,616</u>	<u>1,689,106</u>	<u>2,005,187</u>	<u>115,192,917</u>	<u>105,637,803</u>	9.0
Net Assets - End of Year	<u>\$ 114,258,352</u>	<u>\$ 113,503,811</u>	<u>\$ 1,784,651</u>	<u>\$ 1,689,106</u>	<u>\$ 116,043,003</u>	<u>\$ 115,192,917</u>	0.7

In fiscal year 2010, property tax and unrestricted state grants accounted for 64.6% of governmental activities revenue while charges for service and operating grants accounted for 92.9% of business-type activities revenue.

The District's total revenue was approximately \$130.4 million, of which approximately \$124.7 million was for governmental activities and \$5.7 million was for business-type activities.

As shown in Figure A-4, the District as a whole experienced a 2.7% increase in revenue and a 10.4% increase in expenses. Property tax increased approximately \$1,133,000 and operating grants increased approximately \$9,487,000 to fund the increase in expenses. The increase in expenses is related to increases in the negotiated salaries and benefits.

Governmental Activities

Revenue for governmental activities was \$124,730,665 and expenses were \$123,916,124, which adjusted for transfers amounted to an increase in net assets of \$754,541. The following table presents the total and net cost of the District's major governmental activities: instruction, student and instructional staff services, administrative and business, operation and maintenance and operations, transportation and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	<u>Total</u>		<u>Change</u>	<u>Total</u>		<u>Change</u>
	<u>Total Cost of Services</u>			<u>Net Cost of Services</u>		
	<u>2010</u>	<u>2009</u>	<u>2009-10</u>	<u>2010</u>	<u>2009</u>	<u>2009-10</u>
Instruction	\$ 83,646,154	\$ 71,902,814	16.3%	\$ 51,914,411	\$ 53,213,185	(2.4)%
Student and instructional staff services	7,073,640	6,544,556	8.1	7,073,640	6,544,556	8.1
Administrative and business	10,899,365	11,310,931	(3.6)	10,896,365	11,306,431	(3.6)
Operation and maintenance	13,996,548	11,812,523	18.5	13,076,422	11,202,850	16.7
Transportation	3,240,175	2,175,404	48.9	2,945,602	2,039,404	44.4
Other	<u>5,060,242</u>	<u>8,305,870</u>	(39.1)	<u>5,060,242</u>	<u>4,081,579</u>	24.0
Total	<u>\$ 123,916,124</u>	<u>\$ 112,052,098</u>	10.6	<u>\$ 90,966,682</u>	<u>\$ 88,388,005</u>	2.9

- The total cost of all governmental activities was \$123,916,124, an increase of 10.6% from 2008-09.
- The cost financed by users of the District's programs was \$2,812,987.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$30,136,455.
- The net remaining cost of governmental activities was financed with \$49,786,925 in property and other taxes, \$41,897,979 in unrestricted state grants and \$96,319 in unrestricted investment earnings.

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 revenue exceeded expenses by \$95,545 for 2009-10. In 2008-09 expenses exceeded revenue by \$316,081.
- Charges for services represent 24.4% of total revenue compared to 29.8% for 2008-09. This represents the amount paid by students/staff for daily food service.
- Federal and state operating grants included reimbursement for meals, payments for free and reduced lunches, commodities provided to the District and other miscellaneous grants totaled \$3,877,176, or 68.5%, of total revenue. 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 \$10,814,021 which was less than last year's ending fund balances of \$19,553,389. The main reason for the decrease in combined fund balances at the end of fiscal year 2010 was increased instruction spending, combined with other cost increases.

Over 84.1% 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 categorical aid of \$1,722,154.

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 \$5,603,561 while total fund balance decreased to \$7,325,715.

The fund balance of the District's general fund decreased by \$2,030,592, or 21.7%, during the current fiscal year. The main reason for this decrease was a 10% across-the-board cut in state funding that occurred during the fiscal year.

The **Capital Projects Fund** had a total fund balance of \$1,096,965 compared to \$6,879,321 in 2008-09. The revenue to support the fund is generated from LOSST, which has generated approximately \$10 million per year. In May, 2009, the District sold bond anticipation notes (BAN) to finance an aggressive building/remodeling program and to retire 2006 Series BAN, which are due May, 2012. 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 May, 2012. 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 SAVE tax. SAVE 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 2009-10.

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.

The District's total revenue was \$2,092,710 less than total budgeted revenue, a variance of 1.6%. Even though local tax revenue increased in fiscal year 2010, a reduction in state resources caused the total amount received to be less than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the governmental funds. The District significantly over budgeted in the support services and other expenditures area. Specifically, the District over budgeted for operation and maintenance of plant services and construction expenditures due to the timing of the completion of various construction-related projects.

In spite of the District's budgetary practice, the certified budget was exceeded in the instruction functional area due to the timing of expenditures at year end without sufficient time to amend the certified budget. The District did not exceed its total spending authority.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2010, the District had invested \$154,091,594, 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 \$4,444,656 for Governmental Activities and \$254,420 for Business-Type Activities.

Governmental Activities account for \$152,569,247 of the District's capital assets with the remainder of \$1,522,347 in the Business-Type Activities.

Construction in progress of \$43,943,469 was for West, Kittrell and McKinstry Elementary Schools, Central and Carver 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 2010-09</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	
Land and improvements	\$ 8,041,874	\$ 3,296,750	\$ —	\$ —	\$ 8,041,874	\$ 3,296,750	143.9%
Construction in progress	43,943,469	45,846,024	—	—	43,943,469	45,846,024	(4.2)
Buildings and improvements	90,676,561	82,839,806	—	—	90,676,561	82,839,806	9.5
Equipment and furniture	<u>9,907,343</u>	<u>9,085,930</u>	<u>1,522,347</u>	<u>1,271,169</u>	<u>11,429,690</u>	<u>10,357,099</u>	10.4
Total	<u>\$ 152,569,247</u>	<u>\$ 141,068,510</u>	<u>\$ 1,522,347</u>	<u>\$ 1,271,169</u>	<u>\$ 154,091,594</u>	<u>\$ 142,339,679</u>	

The increase from 2008-09 to 2009-10 is due to the continued work and completion of several construction projects. The amount of construction in progress decreased by \$1,902,555, land and improvements increased \$4,745,124 and buildings and improvements increased by \$7,836,755.

Construction in progress activities during 2009-10 included:

- New construction of Kittrell Elementary
- New construction of West Elementary
- New construction at McKinstry Elementary (Highland)
- New construction at Logan Middle School (GW Carver Academy)
- 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 2008-09 included:

- Renovation at Lowell Elementary
- New construction at McKinstry Elementary (Highland)
- New construction at Logan Middle School (GW Carver Academy)
- New parking lot at Central Middle School
- Renovation of East High School auditorium
- Renovation of West High School locker rooms

Long-Term Debt

At June 30, 2010, 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 Note 5 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:

- Beginning in 2008 and continuing in 2010, the United States and the world are experiencing financial upheaval and it is affecting Iowa revenue. The Governor, in October 2009 announced a 10% across-the-board cut reducing the District's budget by \$5.5 million. In addition, the Iowa Legislature set the 2010-11 budget allowable growth at 2.0% which required additional staff reductions and operational efficiencies. A reduction in allowable growth will not only reduce cash received, but reduce the budget spending total.
- Even at a 2% allowable growth increase, 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 72.8% 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 2010-11. 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.
- Effective July 1, 2007, 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.

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, Chief Financial Officer, Waterloo Community School District, 1516 Washington Street, Waterloo, Iowa 50702.

Basic Financial Statements

Statement of Net Assets

At June 30, 2010

	Governmental Activities	Business- Type Activities	Total
Assets			
Cash and cash equivalents	\$ 21,163,153	\$ 260,493	\$ 21,423,646
Receivables, Net of Allowance for Uncollectible Amounts			
Property Taxes			
Current year delinquent.....	554,242	—	554,242
Succeeding year	39,356,391	—	39,356,391
Accounts	485,483	—	485,483
Due from other governments	5,293,287	7,732	5,301,019
Inventories	204,004	113,180	317,184
Capital assets, net of accumulated depreciation	107,078,093	1,522,347	108,600,440
Capital assets not being depreciated	<u>45,491,154</u>	<u>—</u>	<u>45,491,154</u>
Total Assets	<u>\$ 219,625,807</u>	<u>\$ 1,903,752</u>	<u>\$ 221,529,559</u>
Liabilities			
Accounts payable	\$ 4,971,152	\$ 36,144	\$ 5,007,296
Salaries and benefits payable	8,980,104	82,957	9,063,061
Accrued interest payable	290,000	—	290,000
Unearned Revenue			
Succeeding year property taxes	39,356,391	—	39,356,391
Other	2,934,892	—	2,934,892
Long-Term Liabilities			
Portion Due Within One Year			
Early retirement payable	415,000	—	415,000
Compensated absences	257,049	—	257,049
Portion Due After One Year			
Revenue bonds payable	46,293,667	—	46,293,667
Net OPEB liability.....	624,200	—	624,200
Early retirement payable	<u>1,245,000</u>	<u>—</u>	<u>1,245,000</u>
Total Liabilities	<u>105,367,455</u>	<u>119,101</u>	<u>105,486,556</u>
Net Assets			
Invested in capital assets, net of related debt	106,275,580	1,522,347	107,797,927
Restricted for			
Categorical funding.....	1,722,154	—	1,722,154
Management levy.....	1,245,465	—	1,245,465
Physical plant and equipment levy.....	159,333	—	159,333
Student activities.....	986,543	—	986,543
Unrestricted	<u>3,869,277</u>	<u>262,304</u>	<u>4,131,581</u>
Total Net Assets	<u>114,258,352</u>	<u>1,784,651</u>	<u>116,043,003</u>
Total Liabilities and Net Assets	<u>\$ 219,625,807</u>	<u>\$ 1,903,752</u>	<u>\$ 221,529,559</u>

See accompanying notes to the financial statements.

Statement of Activities

Year Ended June 30, 2010

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-Type Activities	Total
Governmental Activities							
Instruction							
Regular instruction	\$ 53,485,505	\$ 387,050	\$ 22,222,117	\$ —	\$ (30,876,338)	\$ —	\$ (30,876,338)
Special instruction	27,417,823	374,003	7,173,312	—	(19,870,508)	—	(19,870,508)
Vocational instruction	189,556	—	—	—	(189,556)	—	(189,556)
Other instruction	2,553,270	1,575,261	—	—	(978,009)	—	(978,009)
Total Instruction	<u>83,646,154</u>	<u>2,336,314</u>	<u>29,395,429</u>	<u>—</u>	<u>(51,914,411)</u>	<u>—</u>	<u>(51,914,411)</u>
Support Services							
Student services	2,610,177	—	—	—	(2,610,177)	—	(2,610,177)
Instructional staff services	4,463,463	—	—	—	(4,463,463)	—	(4,463,463)
General administration services	1,182,294	—	—	—	(1,182,294)	—	(1,182,294)
School administration services	5,877,930	—	—	—	(5,877,930)	—	(5,877,930)
Business and central administration services	3,839,141	—	3,000	—	(3,836,141)	—	(3,836,141)
Operation and maintenance	13,996,548	470,861	—	449,265	(13,076,422)	—	(13,076,422)
Transportation services	3,240,175	5,812	288,761	—	(2,945,602)	—	(2,945,602)
Total Support Services	<u>35,209,728</u>	<u>476,673</u>	<u>291,761</u>	<u>449,265</u>	<u>(33,992,029)</u>	<u>—</u>	<u>(33,992,029)</u>
Noninstructional Programs	<u>17,099</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(17,099)</u>	<u>—</u>	<u>(17,099)</u>
Other Expenses							
Long-term debt interest	1,798,400	—	—	—	(1,798,400)	—	(1,798,400)
Depreciation (unallocated)	3,244,743	—	—	—	(3,244,743)	—	(3,244,743)
Total Other Expenses	<u>5,043,143</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(5,043,143)</u>	<u>—</u>	<u>(5,043,143)</u>
Total Governmental Activities	<u>123,916,124</u>	<u>2,812,987</u>	<u>29,687,190</u>	<u>449,265</u>	<u>(90,966,682)</u>	<u>—</u>	<u>(90,966,682)</u>
Business-Type Activities							
Noninstructional Programs							
Nutrition services	5,430,231	1,367,271	3,699,246	399,383	—	35,669	35,669
Day care services	191,558	11,685	177,930	—	—	(1,943)	(1,943)
Total Business-Type Activities	<u>5,621,789</u>	<u>1,378,956</u>	<u>3,877,176</u>	<u>399,383</u>	<u>—</u>	<u>33,726</u>	<u>33,726</u>
Total	<u>\$ 129,537,913</u>	<u>\$ 4,191,943</u>	<u>\$ 33,564,366</u>	<u>\$ 848,648</u>	<u>(90,966,682)</u>	<u>33,726</u>	<u>(90,932,956)</u>
General Revenue (Expenses)							
Property taxes levied for general purposes					38,677,332	—	38,677,332
Statewide sales, services and use tax					11,109,593	—	11,109,593
Unrestricted state grants					41,897,979	—	41,897,979
Unrestricted investment earnings					96,319	1,819	98,138
Transfers					(60,000)	60,000	—
Total General Revenue (Expenses)					<u>91,721,223</u>	<u>61,819</u>	<u>91,783,042</u>
Change in Net Assets					754,541	95,545	850,086
Net Assets - Beginning of Year					113,503,811	1,689,106	115,192,917
Net Assets - End of Year					<u>\$ 114,258,352</u>	<u>\$ 1,784,651</u>	<u>\$ 116,043,003</u>

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

At June 30, 2010

	General	Capital Projects	All Other Nonmajor	Total
Assets				
Cash and pooled investments	\$ 18,079,598	\$ 353,171	\$ 2,730,384	\$ 21,163,153
Receivables, Net of Allowance for Uncollectible Amounts				
Property Taxes				
Current year delinquent.....	490,000	—	64,242	554,242
Succeeding year	34,808,212	—	4,548,179	39,356,391
Due from other governments	3,513,806	1,771,776	7,705	5,293,287
Accounts	431,864	—	53,619	485,483
Inventories	<u>204,004</u>	<u>—</u>	<u>—</u>	<u>204,004</u>
Total Assets	<u>\$ 57,527,484</u>	<u>\$ 2,124,947</u>	<u>\$ 7,404,129</u>	<u>\$ 67,056,560</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 3,478,561	\$ 1,027,982	\$ 464,609	\$ 4,971,152
Salaries and benefits payable	8,980,104	—	—	8,980,104
Deferred Revenue				
Succeeding year property taxes ...	34,808,212	—	4,548,179	39,356,391
Other	<u>2,934,892</u>	<u>—</u>	<u>—</u>	<u>2,934,892</u>
Total Liabilities	<u>50,201,769</u>	<u>1,027,982</u>	<u>5,012,788</u>	<u>56,242,539</u>
Fund Balances				
Reserved for				
Categorical funding	1,722,154	—	—	1,722,154
Unreserved, Reported in				
General fund	5,603,561	—	—	5,603,561
Capital projects fund	—	1,096,965	—	1,096,965
Special revenue funds	<u>—</u>	<u>—</u>	<u>2,391,341</u>	<u>2,391,341</u>
Total Fund Balances	<u>7,325,715</u>	<u>1,096,965</u>	<u>2,391,341</u>	<u>10,814,021</u>
Total Liabilities and Fund Balances	<u>\$ 57,527,484</u>	<u>\$ 2,124,947</u>	<u>\$ 7,404,129</u>	<u>\$ 67,056,560</u>

See accompanying notes to the financial statements.

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

At June 30, 2010

Total Fund Balances for Governmental Funds (Page 16).....		\$ 10,814,021
<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.		152,569,247
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.....		(290,000)
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		
Bonds payable	\$ (46,400,000)	
Unamortized bond discount	106,333	
Other postemployment benefits	(624,200)	
Compensated absences	(257,049)	
Early retirement.....	<u>(1,660,000)</u>	<u>(48,834,916)</u>
Net Assets of Governmental Activities (Page 14)		<u>\$ 114,258,352</u>

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

Year Ended June 30, 2010

	General	Capital Projects	All Other Nonmajor	Total
Revenue				
Local Sources				
Local taxes.....	\$ 34,215,125	\$ 11,109,593	\$ 4,462,207	\$ 49,786,925
Tuition	647,364	—	—	647,364
Other	2,080,233	32,516	1,713,609	3,826,358
State sources.....	54,517,261	—	3,385	54,520,646
Federal sources.....	15,931,971	—	17,401	15,949,372
Total Revenue.....	<u>107,391,954</u>	<u>11,142,109</u>	<u>6,196,602</u>	<u>124,730,665</u>
Expenditures				
Current				
Instruction				
Regular instruction	52,051,894	—	1,358,178	53,410,072
Special instruction.....	21,999,157	—	46,553	22,045,710
Vocational instruction.....	197,814	—	—	197,814
Other instruction.....	777,724	—	1,700,807	2,478,531
Total Instruction.....	<u>75,026,589</u>	<u>—</u>	<u>3,105,538</u>	<u>78,132,127</u>
Support Services				
Student services.....	2,541,455	—	18,241	2,559,696
Instructional staff services.....	4,336,820	—	36,183	4,373,003
General administration services.....	1,110,254	—	51,728	1,161,982
School administration services.....	5,662,840	—	95,487	5,758,327
Business and central administration services.....	3,797,035	—	112,223	3,909,258
Operation and maintenance of plant services	9,138,648	—	711,994	9,850,642
Transportation services.....	2,738,654	—	452,484	3,191,138
Total Support Services.....	<u>29,325,706</u>	<u>—</u>	<u>1,478,340</u>	<u>30,804,046</u>
Noninstructional Programs.....	—	—	17,099	17,099
Other Expenditures				
Long-Term Debt				
Interest and fiscal charges ..	—	—	1,740,400	1,740,400
AEA flowthrough	4,966,096	—	—	4,966,096
Total Other Expenditures	<u>4,966,096</u>	<u>—</u>	<u>1,740,400</u>	<u>6,706,496</u>
Facilities Acquisition and Construction.....				
	—	15,184,065	2,566,200	17,750,265
Total Expenditures	<u>109,318,391</u>	<u>15,184,065</u>	<u>8,907,577</u>	<u>133,410,033</u>
Revenue Under Expenditures	<u>(1,926,437)</u>	<u>(4,041,956)</u>	<u>(2,710,975)</u>	<u>(8,679,368)</u>
Other Financing Sources (Uses)				
Transfers in.....	—	—	1,784,555	1,784,555
Transfers out	(104,155)	(1,740,400)	—	(1,844,555)
Total Other Financing Sources (Uses)	<u>(104,155)</u>	<u>(1,740,400)</u>	<u>1,784,555</u>	<u>(60,000)</u>
Net Change in Fund Balances....	<u>(2,030,592)</u>	<u>(5,782,356)</u>	<u>(926,420)</u>	<u>(8,739,368)</u>
Fund Balance - Beginning of Year	9,356,307	6,879,321	3,317,761	19,553,389
Fund Balance - End of Year	<u>\$ 7,325,715</u>	<u>\$ 1,096,965</u>	<u>\$ 2,391,341</u>	<u>\$ 10,814,021</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, 2010

Change in Fund Balances - Total Governmental Funds (Page 18) \$ (8,739,368)

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.....	\$ 15,946,650	
Depreciation expense	<u>(4,444,656)</u>	11,501,994

The net book value of the capital assets disposed of during the year.		(1,257)
--	--	---------

Amortization of discount on bonds payable issued during the prior year increases current financial resources to governmental funds but it increases liabilities in the statement of net assets.....		(58,000)
---	--	----------

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	\$ (1,673,628)	
Other postemployment benefits	<u>(275,200)</u>	<u>(1,948,828)</u>

Change in Net Assets of Governmental Activities (Page 15) **\$ (754,541)**

Statement of Net Assets - Proprietary Funds

At June 30, 2010

	Total Nonmajor Enterprise Funds
Assets	
Current Assets	
Cash and cash equivalents	\$ 260,493
Receivables, Net of Allowance for Uncollectible Amounts	
Intergovernmental	7,732
Inventories	113,180
Total Current Assets	<u>381,405</u>
Noncurrent Assets	
Capital assets, net of accumulated depreciation	<u>1,522,347</u>
Total Assets	<u>\$ 1,903,752</u>
Liabilities and Net Assets	
Current Liabilities	
Accounts payable	\$ 36,144
Salaries and benefits payable	82,957
Total Current Liabilities	<u>119,101</u>
Net Assets	
Invested in capital assets	1,522,347
Unrestricted	262,304
Total Net Assets	<u>1,784,651</u>
Total Liabilities and Net Assets	<u>\$ 1,903,752</u>

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

Year Ended June 30, 2010

	Total Nonmajor Enterprise Funds
Revenue	
Local Sources	
Charges for service.....	\$ 1,350,947
Other receipts	<u>28,009</u>
Total Operating Revenue	<u>1,378,956</u>
Operating Expenses	
Noninstructional Programs	
Salaries	1,683,067
Benefits	837,114
Purchased services.....	2,839,099
Other	8,089
Depreciation.....	<u>254,420</u>
Total Operating Expenses	<u>5,621,789</u>
Loss From Operations	<u>(4,242,833)</u>
Nonoperating Revenue	
State sources.....	190,953
Federal sources.....	3,686,223
Interest on investments	1,819
Capital contributions.....	<u>399,383</u>
Total Nonoperating Revenue	<u>4,278,378</u>
Income Before Transfers	35,545
Transfers in.....	<u>60,000</u>
Increase in Net Assets	95,545
Net Assets - Beginning of Year	<u>1,689,106</u>
Net Assets - End of Year	<u>\$ 1,784,651</u>

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2010

	Total Nonmajor Enterprise Funds
Cash Flows Used in Operating Activities	
Cash received from sale of lunches and breakfasts.....	\$ 1,350,947
Cash received from other	28,009
Cash payments to employees for services.....	(2,499,381)
Cash payments to suppliers for goods and services	<u>(2,619,043)</u>
Net Cash Used in Operating Activities	<u>(3,739,468)</u>
Cash Flows Provided by Noncapital Financing Activities	
State grants received.....	190,953
Federal grants received.....	3,494,231
Transfers	<u>60,000</u>
Net Cash Provided by Noncapital Financing Activities	<u>3,745,184</u>
Cash Flows Used in Capital and Related Financing Activities	
Acquisition of capital assets	<u>(106,215)</u>
Cash Flows From Investing Activities	
Interest on investments	<u>1,819</u>
Net Decrease in Cash and Cash Equivalents	(98,680)
Cash and Cash Equivalents - Beginning of Year	<u>359,173</u>
Cash and Cash Equivalents - End of Year	<u>\$ 260,493</u>
Reconciliation of Loss From Operations to Net Cash Used in Operating Activities	
Loss from operations	\$ (4,242,833)
Adjustments to Reconcile Loss From Operations to Net Cash Used in Operating Activities	
Commodities used.....	225,788
Depreciation	254,420
Changes in Assets and Liabilities	
Increase in inventories	(16,017)
Increase in accounts payable.....	18,375
Increase in salaries and benefits payable	<u>20,799</u>
Net Cash Used in Operating Activities	<u>\$ (3,739,468)</u>

Noncash Investing, Capital and Financing Activities

During the year ended June 30, 2010, the District received \$275,267 of federal commodities.

The District purchased \$399,383 of equipment from the capital projects fund, resulting in cash paid for equipment of \$106,215 for the year ended June 30, 2010.

Statement of Fiduciary Assets and Liabilities

At June 30, 2010

	Agency
Assets	
Cash and Pooled Investments	<u>\$ 91,080</u>
Liabilities	
Due to Other Governments.....	<u>\$ 91,080</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 Governmental 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

Government-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 government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District 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 following:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is used to account for retiree health insurance premiums and 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 government-wide financial statements and the proprietary 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. The agency fund is custodial in nature and has no measurement focus; however, it uses the accrual basis of accounting.

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 government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1-1/2% monthly penalty for delinquent payments; is based on January 1, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010; and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2009.

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, 2010, food and supplies inventory valued at \$113,180 were on hand. General fund supplies inventory is accounted for under the consumption method. Expenses are recognized when consumed on the government-wide financial statements and as expenditures when purchased on the fund financial statements.

Capital Assets

Capital assets, which include property, furniture and equipment and intangibles, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset useful lives are not capitalized. Capital assets 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
Intangibles.....	200,000
Furniture and Equipment	
School Nutrition Fund equipment.....	500
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
Intangibles.....	5 - 10 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 and August 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 government-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, 2010. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-Term Obligations

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

Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements in the instruction functional 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, 2010 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.

At June 30, 2010, the District had investments in the Iowa Schools Joint Investment Trust Diversified Portfolio of \$22,448,046. The investments are valued at amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940. The value of the investment is the same as the value of the pool shares. The Iowa Schools Joint Investment Trust is registered with and regulated by the Securities and Exchange Commission.

Credit risk - The District's investment policy does not formally address credit risk. The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investors Service.

(3) Interfund Transfers

The detail of the interfund transfers for the year ended June 30, 2010 is as follows:

Transfer to	Transfer From	Amount
Debt Service Enterprise	Capital Projects	\$ 1,740,400
Day Care	General	60,000
Student Activity Fund	General	44,155
Total		<u>\$ 1,844,555</u>

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) Capital Assets

Capital assets activity for the year ended June 30, 2010 was as follows:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 1,521,990	\$ 25,695	\$ —	\$ 1,547,685
Construction in progress	45,846,024	13,598,596	15,501,151	43,943,469
Total Capital Assets Not Being Depreciated.....	<u>47,368,014</u>	<u>13,624,291</u>	<u>15,501,151</u>	<u>45,491,154</u>
Capital Assets Being Depreciated				
Buildings and improvements	119,276,583	10,131,171	1,713,507	127,694,247
Improvements other than buildings	3,175,745	4,846,268	5,189	8,016,824
Furniture and equipment	24,577,713	2,846,071	47,416	27,376,368
Total Capital Assets Being Depreciated.....	<u>147,030,041</u>	<u>17,823,510</u>	<u>1,766,112</u>	<u>163,087,439</u>
Less Accumulated Depreciation for				
Buildings and improvements	36,436,777	2,294,416	1,713,507	37,017,686
Improvements other than buildings	1,400,985	126,839	5,189	1,522,635
Furniture and equipment	15,491,783	2,023,401	46,159	17,469,025
Total Accumulated Depreciation	<u>53,329,545</u>	<u>4,444,656</u>	<u>1,764,855</u>	<u>56,009,346</u>
Net Total Capital Assets Being Depreciated.....	<u>93,700,496</u>	<u>13,378,854</u>	<u>1,257</u>	<u>107,078,093</u>
Net Governmental Activities				
Capital Assets	<u>\$ 141,068,510</u>	<u>\$ 27,003,145</u>	<u>\$ 15,502,408</u>	<u>\$ 152,569,247</u>
Business-Type Activities				
Furniture, equipment, vehicles	\$ 2,885,698	\$ 505,598	\$ —	\$ 3,391,296
Less accumulated depreciation	1,614,529	254,420	—	1,868,949
Net Business-Type Activities				
Capital Assets	<u>\$ 1,271,169</u>	<u>\$ 251,178</u>	<u>\$ —</u>	<u>\$ 1,522,347</u>

Notes to the Financial Statements

(4) 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, 2010 are as follows:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Pre July 1, 1997.....	\$ 44,837,433	\$ —	\$ 1,718,696	\$ 43,118,737
General fund revenue.....	11,583,044	1,270,946	—	12,853,990
Capital projects fund revenue.....	132,052,473	14,135,438	—	146,187,911
Special revenue funds revenue..	5,800,032	540,266	47,416	6,292,882
Donations	125,073	—	—	125,073
	<u>\$ 194,398,055</u>	<u>\$ 15,946,650</u>	<u>\$ 1,766,112</u>	<u>\$ 208,578,593</u>

The changes in capital assets used in the operation of governmental funds by function and activity as of June 30, 2010 are as follows:

Function and Activity	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Education.....	\$ 187,733,775	\$ 15,403,869	\$ 1,720,734	\$ 201,416,910
Transportation	241,625	—	—	241,625
Maintenance	3,681,242	33,164	—	3,714,406
Administration.....	2,741,413	509,617	45,378	3,205,652
	<u>\$ 194,398,055</u>	<u>\$ 15,946,650</u>	<u>\$ 1,766,112</u>	<u>\$ 208,578,593</u>

The capital assets used in the operation of governmental funds by function and activity as of June 30, 2010 are as follows:

Function and Activity	Construction in Progress	Land and Site Improve- ments	Buildings	Machinery and Equipment	Total
Education.....	\$ 43,943,469	\$ 9,040,693	\$ 126,773,162	\$ 21,659,586	\$ 201,416,910
Transportation	—	7,000	52,000	182,625	241,625
Maintenance	—	458,636	516,364	2,739,406	3,714,406
Administration.....	—	58,180	352,721	2,794,751	3,205,652
	<u>\$ 43,943,469</u>	<u>\$ 9,564,509</u>	<u>\$ 127,694,247</u>	<u>\$ 27,376,368</u>	<u>\$ 208,578,593</u>

Notes to the Financial Statements

(4) Capital Assets

Depreciation expense was charged as follows:

Governmental Activities

Instruction	
Regular.....	\$ 227,460
Special	7,138
Vocational	74,109
Other	105,392
Support Services	
Student.....	1,174
Instructional staff.....	16,305
General administration	4,967
School administration.....	12,035
Business and central administration	363,644
Operation and maintenance of plant	387,689
Unallocated depreciation.....	<u>3,244,743</u>
Total Governmental Activities Depreciation Expense	<u>\$ 4,444,656</u>

Business-Type Activities

School Nutrition.....	\$ 246,083
Day Care.....	<u>8,337</u>
Total Business-Type Activities Depreciation Expense	<u>\$ 254,420</u>

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2010 is as follows:

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year	Due Within One Year
Revenue bonds	\$ 46,400,000	\$ —	\$ —	\$ 46,400,000	\$ —
Revenue bonds discount....	(164,333)	—	(58,000)	(106,333)	—
Compensated absences.....	243,421	257,049	243,421	257,049	257,049
Early retirement benefit	438,826	2,141,936	920,762	1,660,000	415,000
Net OPEB liability	<u>349,000</u>	<u>275,200</u>	<u>—</u>	<u>624,200</u>	<u>—</u>
Total	<u>\$ 47,266,914</u>	<u>\$ 2,674,185</u>	<u>\$ 1,106,183</u>	<u>\$ 48,834,916</u>	<u>\$ 672,049</u>

Compensated Absences

Compensated absences are generally liquidated by the General Fund. The District's compensated absences are generally liquidated within one year.

Notes to the Financial Statements

(5) Long-Term Liabilities

Revenue Bonds Payable

Details of the District's June 30, 2010 school infrastructure sales, services and use tax revenue and refunding bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May 1, 2009			
	Interest Rates	Principal	Interest	Total
2011.....	3.75%	\$ —	\$ 1,740,000	\$ 1,740,000
2012.....	3.75	46,400,000	1,740,000	48,140,000
Total.....		<u>\$ 46,400,000</u>	<u>\$ 3,480,000</u>	<u>\$ 49,880,000</u>

The District has pledged future school infrastructure (statewide) sales, services and use tax revenue to repay the \$46,400,000 of bonds issued in May, 2009. The bonds were issued for the purpose of financing a portion of the costs associated with site acquisition, construction, reconstruction, remodeling and refurbishing certain of the District's facilities, refunding the District's outstanding school infrastructure local option sales, services and use tax revenue bonds, series 2006 and paying the costs of issuing the bonds. The bonds are payable from proceeds of any school infrastructure (statewide) sales, services and use tax revenue received by the District and mature May 1, 2012. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Total principal and interest remaining to be paid on the bonds is \$49,880,000. For the current year, no principal and \$1,740,400 of interest was paid on the 2009 series bonds and total statewide sales and services tax revenue was \$11,109,593.

The resolution providing for the issuance of the school infrastructure, sales, services and use tax revenue and refunding bonds requires all proceeds from the school infrastructure (statewide) sales, services and use taxes received be placed in a revenue account.

The District did comply with all of the revenue bond provisions during the year ended June 30, 2010.

The District did not exceed its legal debt margin at June 30, 2010, as follows:

Total Assessed Valuation	<u>\$ 4,025,721,095</u>
Debt limit, 5% of total assessed valuation	\$ 201,286,055
Amount of debt applicable to debt limit, total bonded debt.....	<u>46,400,000</u>
Excess of Debt Limit Over Bonded Debt Outstanding, Legal Debt Margin	<u>\$ 154,886,055</u>

Notes to the Financial Statements

(6) Pension and Retirement Benefits

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

Plan members are required to contribute 4.3% (2010), 4.1% (2009) to 3.9% (2008) of their annual salary and the District is required to contribute 6.65% (2010), 6.35% (2009) to 6.05% (2008) of annual payroll for the years ended June 30, 2010, 2009 and 2008. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$4,110,440, \$3,717,336 and \$3,339,429, respectively, equal to the required contributions for each year.

(7) 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, 2010 was approximately \$11,000,000.

(8) 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.

(9) 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 \$4,966,096 for the year ended June 30, 2010, and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(10) 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.

(10) Early Retirement Plan

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, as described in Note 11.

The District adopted a one-time temporary supplemental early retirement incentive for teachers who applied for early retirement no later than February 1, 2010. The benefit amount was \$25,000 per teacher and final payment is due in July, 2014.

At June 30, 2010, 86 employees had requested early retirement and the District's obligation was \$1,660,000.

(11) Other Postemployment Benefits (OPEB)

Plan Description

The District operates a single-employer retiree benefit plan which provides medical/prescription drug and dental benefits for retirees and their spouses. There are 1,346 active and 144 retired members in the plan. Participants must be age 55 or older at retirement. The plan does not issue a stand-alone financial report.

The medical/prescription drug benefits are provided through a fully insured plan with Wellmark. The dental benefit is administered by Delta Dental of Iowa. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy rate and an OPEB liability. There is no subsidy or OPEB liability associated with the dental benefit.

Funding Policy

The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

Notes to the Financial Statements

(11) Other Postemployment Benefits (OPEB)

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution.....	\$ 1,094,000
Interest on net OPEB obligation	17,500
Adjustment to annual required contribution	<u>(13,300)</u>
Annual OPEB Cost	1,098,200
Contributions made	<u>(823,000)</u>
Increase in Net OPEB Obligation.....	275,200
Net OPEB Obligation - Beginning of Year	<u>349,000</u>
Net OPEB Obligation - End of Year.....	<u>\$ 624,200</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end-of-year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended 2010, the District contributed \$823,000 to the medical plan.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 1,098,200	74.9%	\$ 624,200

Funded Status and Funding Progress

As of July 1, 2008, the most recent actuarial valuation date for the period of July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$10.796 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$10.796 million. The covered payroll (annual payroll of active employees covered by the plan) was \$50.106 million and the ratio of the UAAL to covered payroll was 21.5%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Notes to the Financial Statements

(11) Other Postemployment Benefits (OPEB)

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2008 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 5% discount rate based on the District funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 6%. The medical trend rate is reduced by 0.5% each year until reaching the 6% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in IPERS Actuarial Report as of June 30, 2007.

Projected claim costs of the medical plan are \$758 per month for retirees age 55, \$915 per month for retirees age 60 and \$1,090 for retirees age 64. The salary increase rate was assumed to be 4% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(12) Categorical Funding

The District's reserved fund balance for categorical funding at June 30, 2010 is comprised of the following programs:

At-risk formula supplementary weighting	\$ 111,764
Beginning teacher mentoring and induction	9,332
Destination graduation	3,821
Educator quality, basic salary	442,835
Educator quality, core curriculum	275,511
Educator quality, professional development	84,250
Gifted and talented program	41,068
Home school assistance program	14,165
Iowa Arts Council	197
Limited English proficiency weighting	22,119
Market factor pay	45,631
Nonpublic textbook services	17,160
Returning dropout and dropout prevention program	640,957
Statewide voluntary four-year-old preschool program	13,344
Total	<u>\$ 1,722,154</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 Washburn Elementary School, Kittrell Elementary School, Highland Elementary School, Carver Middle School, West Elementary School, East High School and West High School. At June 30, 2010, the remaining commitment on these contracts was approximately \$1,900,000.

(14) Subsequent Events

Subsequent to June 30, 2010, the District entered into contracts for the construction of West Elementary and the upgrade of McKinstry Elementary totaling approximately \$15.1 million.

Subsequent to June 30, 2010, the District approved the issuance of approximately \$54 million in school infrastructure sales, services and use tax revenue and refunding bonds and \$15.4 million of qualified school construction bonds.

Subsequent to June 30, 2010, the District purchased several properties costing approximately \$1 million as part of the West Elementary building project.

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, 2010

	<u>Actual</u>		Total	Original and Final Budget	Over (Under) Budget
	Governmental Fund Types - Actual	Proprietary Fund Type - Actual			
Revenue					
Local sources	\$ 54,260,647	\$ 1,380,775	\$ 55,641,422	\$ 55,403,200	\$ 238,222
Intermediate sources..	—	—	—	200,000	(200,000)
State sources.....	54,520,646	190,953	54,711,599	67,028,126	(12,316,527)
Federal sources.....	<u>15,949,372</u>	<u>3,686,223</u>	<u>19,635,595</u>	<u>9,450,000</u>	<u>10,185,595</u>
Total Revenue	<u>124,730,665</u>	<u>5,257,951</u>	<u>129,988,616</u>	<u>132,081,326</u>	<u>(2,092,710)</u>
Expenditures					
Instruction.....	78,132,127	—	78,132,127	77,000,000	1,132,127
Support services.....	30,804,046	—	30,804,046	33,750,000	(2,945,954)
Noninstructional programs	17,099	5,621,789	5,638,888	5,795,000	(156,112)
Other expenditures.....	<u>24,456,761</u>	<u>—</u>	<u>24,456,761</u>	<u>27,809,106</u>	<u>(3,352,345)</u>
Total Expenditures	<u>133,410,033</u>	<u>5,621,789</u>	<u>139,031,822</u>	<u>144,354,106</u>	<u>(5,322,284)</u>
Revenue Under Expenditures	(8,679,368)	(363,838)	(9,043,206)	(12,272,780)	3,229,574
Other Financing Sources (Uses) (Net)	<u>(60,000)</u>	<u>459,383</u>	<u>399,383</u>	<u>2,475,000</u>	<u>(2,075,617)</u>
Revenue Over (Under) Expenditures and Other Financing Sources (Uses)	(8,739,368)	95,545	(8,643,823)	(9,797,780)	<u>\$ 1,153,957</u>
Balance - Beginning of Year	<u>19,553,389</u>	<u>1,689,106</u>	<u>21,242,495</u>	<u>35,955,668</u>	
Balance - End of Year	<u>\$ 10,814,021</u>	<u>\$ 1,784,651</u>	<u>\$ 12,598,672</u>	<u>\$ 26,157,888</u>	

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar and statutorily prescribed procedures. The District's budget is prepared on the modified accrual basis.

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, 2010, disbursements in the instruction functional area exceeded the amount budgeted.

Schedule of Funding Progress for the Retiree Health Plan ---

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2009	7-1-08	\$ —	\$ 10,796,000	\$ 10,796,000	0%	\$ 50,106,000	21.5%
2010	7-1-08	—	10,796,000	10,796,000	0	50,106,000	21.5

See Note 11 in the accompanying Notes to the Financial Statements for the plan description, funding policy, annual OPEB cost and net OPEB obligation, funded status and funding progress.

Other Supplementary Information

Nonmajor Governmental Funds - Description of Funds ---

Special Revenue Funds

Special revenue funds are used to account for specific revenue that is legally restricted to expenditures for particular purposes.

Management Account Fund This fund accounts for the resources accumulated and payments made for property insurance, fidelity bonds, worker compensation, liability insurance premiums, unemployment insurance claims and early retirement incentives.

Student Activity Fund This fund accounts for the funds raised by student groups. Under state law, the Board retains responsibility for the Student Activity Fund's ultimate disposition.

PPEL Fund This fund accounts for the resources accumulated and payments made for the purchase and improvement of grounds; purchase of buildings; major repairs, remodeling, reconstructing, improving or expanding the schoolhouses or buildings; expenditures for energy conservation; and for equipment purchases which must be equal to or greater than \$1,500 in unit value. The purchase of transportation vehicles qualifies under the law.

Other Funds

Debt Service Fund This fund is utilized to account for the payment of interest and principal on the District's long-term debt.

Combining Balance Sheet - Nonmajor Governmental Funds

At June 30, 2010

	<u>Special Revenue Funds</u>			Total Nonmajor Governmen- tal Funds
	Management Account	Student Activity	PPEL Fund	
Assets				
Cash and pooled investments	\$ 1,179,326	\$ 1,038,771	\$ 512,287	\$ 2,730,384
Receivables, Net of Allowance for Uncollectible Amounts				
Property Taxes				
Current year delinquent	28,584	—	35,658	64,242
Succeeding year	2,000,004	—	2,548,175	4,548,179
Due from other governments...	—	—	7,705	7,705
Accounts	<u>53,619</u>	<u>—</u>	<u>—</u>	<u>53,619</u>
Total Assets	<u>\$ 3,261,533</u>	<u>\$ 1,038,771</u>	<u>\$ 3,103,825</u>	<u>\$ 7,404,129</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 16,064	\$ 52,228	\$ 396,317	\$ 464,609
Deferred Revenue				
Succeeding year property taxes	<u>2,000,004</u>	<u>—</u>	<u>2,548,175</u>	<u>4,548,179</u>
Total Liabilities.....	<u>2,016,068</u>	<u>52,228</u>	<u>2,944,492</u>	<u>5,012,788</u>
Fund Balances				
Unreserved fund balance	<u>1,245,465</u>	<u>986,543</u>	<u>159,333</u>	<u>2,391,341</u>
Total Liabilities and Fund Balances.....	<u>\$ 3,261,533</u>	<u>\$ 1,038,771</u>	<u>\$ 3,103,825</u>	<u>\$ 7,404,129</u>

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

Year Ended June 30, 2010

	Special Revenue Funds			Debt Service	Total Nonmajor Governmental Funds
	Management Account	Student Activity	PPEL Fund		
Revenue					
Local Sources					
Local taxes.....	\$ 1,995,998	\$ —	\$ 2,466,209	\$ —	\$ 4,462,207
Other	111,273	1,578,678	23,658	—	1,713,609
State sources	1,536	—	1,849	—	3,385
Federal sources	—	—	17,401	—	17,401
Total Revenue	<u>2,108,807</u>	<u>1,578,678</u>	<u>2,509,117</u>	<u>—</u>	<u>6,196,602</u>
Expenditures					
Instruction					
Regular instruction.....	1,358,178	—	—	—	1,358,178
Special instruction.....	46,553	—	—	—	46,553
Other instruction.....	445	1,700,362	—	—	1,700,807
Total Instruction	<u>1,405,176</u>	<u>1,700,362</u>	<u>—</u>	<u>—</u>	<u>3,105,538</u>
Support Services					
Student services	18,241	—	—	—	18,241
Instructional staff services	36,183	—	—	—	36,183
General administration services ..	51,728	—	—	—	51,728
School administration services	95,487	—	—	—	95,487
Business and central administration services.....	23,466	—	88,757	—	112,223
Operation and maintenance of plant services	555,874	—	156,120	—	711,994
Transportation services	102,484	—	350,000	—	452,484
Total Support Services	<u>883,463</u>	<u>—</u>	<u>594,877</u>	<u>—</u>	<u>1,478,340</u>
Noninstructional Programs.....	<u>17,099</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>17,099</u>
Other Expenditures					
Long-Term Debt Interest and fiscal charges	—	—	—	1,740,400	1,740,400
Facilities Acquisition and Construction.....	—	—	2,566,200	—	2,566,200
Total Expenditures	<u>2,305,738</u>	<u>1,700,362</u>	<u>3,161,077</u>	<u>1,740,400</u>	<u>8,907,577</u>
Revenue Under Expenditures	(196,931)	(121,684)	(651,960)	(1,740,400)	(2,710,975)
Other Financing Sources					
Transfers in	—	44,155	—	1,740,400	1,784,555
Net Change in Fund Balance	(196,931)	(77,529)	(651,960)	—	(926,420)
Fund Balance - Beginning of Year	<u>1,442,396</u>	<u>1,064,072</u>	<u>811,293</u>	<u>—</u>	<u>3,317,761</u>
Fund Balance - End of Year	<u>\$ 1,245,465</u>	<u>\$ 986,543</u>	<u>\$ 159,333</u>	<u>\$ —</u>	<u>\$ 2,391,341</u>

Nonmajor Proprietary Funds - Description of Funds

Proprietary funds are used to account for activities similar to those found in private industry, where the determination of net income is necessary or useful to provide sound financial administration.

School Nutrition Fund This fund accounts for the food service operations of the District.

Day Care Fund This fund accounts for the day care operations of the District.

Combining Balance Sheet - Nonmajor Proprietary Funds

At June 30, 2010

	School Nutrition	Day Care	Total Nonmajor Enterprise Funds
Assets			
Current Assets			
Cash and cash equivalents	\$ 81,292	\$ 179,201	\$ 260,493
Receivables, Net of Allowance for Uncollectible Amounts			
Intergovernmental.....	7,732	—	7,732
Inventories	113,180	—	113,180
Total Current Assets	202,204	179,201	381,405
Noncurrent Assets			
Capital assets, net of accumulated depreciation	1,386,326	136,021	1,522,347
Total Assets	<u>\$ 1,588,530</u>	<u>\$ 315,222</u>	<u>\$ 1,903,752</u>
Liabilities and Net Assets			
Current Liabilities			
Accounts payable	\$ 36,089	\$ 55	\$ 36,144
Salaries and benefits payable	38,904	44,053	82,957
Total Current Liabilities	74,993	44,108	119,101
Net Assets			
Invested in capital assets	1,386,326	136,021	1,522,347
Unrestricted	127,211	135,093	262,304
Total Net Assets	1,513,537	271,114	1,784,651
Total Liabilities and Net Assets	<u>\$ 1,588,530</u>	<u>\$ 315,222</u>	<u>\$ 1,903,752</u>

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

Year Ended June 30, 2010

	School Nutrition	Day Care	Total Nonmajor Enterprise Funds
Revenue			
Local Sources			
Charges for service	\$ 1,350,947	\$ —	\$ 1,350,947
Other receipts	16,324	11,685	28,009
Total Operating Revenue	<u>1,367,271</u>	<u>11,685</u>	<u>1,378,956</u>
Operating Expenses			
Noninstructional Programs			
Salaries.....	1,574,009	109,058	1,683,067
Benefits.....	779,121	57,993	837,114
Purchased services	2,823,229	15,870	2,839,099
Other.....	7,789	300	8,089
Depreciation	246,083	8,337	254,420
Total Operating Expenses	<u>5,430,231</u>	<u>191,558</u>	<u>5,621,789</u>
Loss From Operations	<u>(4,062,960)</u>	<u>(179,873)</u>	<u>(4,242,833)</u>
Nonoperating Revenue			
State sources.....	179,559	11,394	190,953
Federal sources.....	3,519,687	166,536	3,686,223
Interest on investments	1,774	45	1,819
Capital contributions.....	399,383	—	399,383
Total Nonoperating Revenue.....	<u>4,100,403</u>	<u>177,975</u>	<u>4,278,378</u>
Income (Loss) Before Transfers	37,443	(1,898)	35,545
Transfers in.....	<u>—</u>	<u>60,000</u>	<u>60,000</u>
Increase in Net Assets	37,443	58,102	95,545
Net Assets - Beginning of Year	<u>1,476,094</u>	<u>213,012</u>	<u>1,689,106</u>
Net Assets - End of Year	<u>\$ 1,513,537</u>	<u>\$ 271,114</u>	<u>\$ 1,784,651</u>

Combining Statement of Cash Flows - Nonmajor Proprietary Funds

Year Ended June 30, 2010

	School Nutrition	Day Care	Total Nonmajor Enterprise Funds
Cash Flows Used in Operating Activities			
Cash received from sale of lunches and breakfasts....	\$ 1,350,947	\$ —	\$ 1,350,947
Cash received from other	16,324	11,685	28,009
Cash payments to employees for services.....	(2,334,673)	(164,708)	(2,499,381)
Cash payments to suppliers for goods and services ...	<u>(2,602,390)</u>	<u>(16,653)</u>	<u>(2,619,043)</u>
Net Cash Used in Operating Activities	<u>(3,569,792)</u>	<u>(169,676)</u>	<u>(3,739,468)</u>
Cash Flows Provided by Noncapital Financing Activities			
State grants received.....	179,559	11,394	190,953
Federal grants received.....	3,327,695	166,536	3,494,231
Transfers	<u>—</u>	<u>60,000</u>	<u>60,000</u>
Net Cash Provided by Noncapital Financing Activities.....	<u>3,507,254</u>	<u>237,930</u>	<u>3,745,184</u>
Cash Flows Used in Capital and Related Financing Activities			
Acquisition of capital assets	<u>(106,215)</u>	<u>—</u>	<u>(106,215)</u>
Cash Flows From Investing Activities			
Interest on investments	<u>1,774</u>	<u>45</u>	<u>1,819</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(166,979)	68,299	(98,680)
Cash and Cash Equivalents - Beginning of Year	<u>248,271</u>	<u>110,902</u>	<u>359,173</u>
Cash and Cash Equivalents - End of Year	<u>\$ 81,292</u>	<u>\$ 179,201</u>	<u>\$ 260,493</u>
Reconciliation of Loss From Operations to Net Cash Used in Operating Activities			
Loss from operations.....	\$ (4,062,960)	\$ (179,873)	\$ (4,242,833)
Adjustments to Reconcile Loss From Operations to Net Cash Used in Operating Activities			
Commodities used	225,788	—	225,788
Depreciation.....	246,083	8,337	254,420
Changes in Assets and Liabilities			
Increase in inventories.....	(16,017)	—	(16,017)
Increase (decrease) in accounts payable.....	18,858	(483)	18,375
Increase in salaries and benefits payable	<u>18,456</u>	<u>2,343</u>	<u>20,799</u>
Net Cash Used in Operating Activities	<u>\$ (3,569,792)</u>	<u>\$ (169,676)</u>	<u>\$ (3,739,468)</u>

Schedule of Changes in Individual Student Activity Accounts

Year Ended June 30, 2010

Account	Balance - Beginning of Year	Revenue	Expenditures	Balance - End of Year
High Schools				
East.....	\$ 179,398	\$ 271,490	\$ 291,471	\$ 159,417
West.....	238,518	817,817	871,201	185,134
Expo.....	24,996	27,176	22,004	30,168
Middle Schools				
Central	83,297	30,063	29,849	83,511
Hoover	70,672	37,739	38,226	70,185
Carver	13,509	31,234	21,809	22,934
Bunger	36,167	25,645	25,421	36,391
Elementary Schools				
Black Hawk	6,193	5,539	11,732	—
Cunningham.....	20,340	22,565	24,943	17,962
Edison	22,717	39,694	25,235	37,176
Elk Run Pre-K	—	51	34	17
Irving	25,857	8,262	11,624	22,495
Kingsley	43,875	66,765	59,816	50,824
Kittrell	36,120	10,714	8,976	37,858
Lincoln.....	17,100	7,992	7,118	17,974
Lowell.....	28,445	24,190	27,306	25,329
Orange	27,341	35,464	29,425	33,380
Highland.....	71,094	19,631	30,935	59,790
Lou Henry	46,087	48,811	45,314	49,584
Poyner.....	53,089	45,006	64,183	33,912
Other.....	<u>19,257</u>	<u>46,985</u>	<u>53,740</u>	<u>12,502</u>
Total	<u>\$ 1,064,072</u>	<u>\$ 1,622,833</u>	<u>\$ 1,700,362</u>	<u>\$ 986,543</u>

Statement of Changes in Fiduciary Assets and Liabilities - Agency Fund ▬

Year Ended June 30, 2010

	Balance - Beginning of Year	Additions	Deductions	Balance - End of Year
Assets				
Cash.....	<u>\$ 62,181</u>	<u>\$ 91,080</u>	<u>\$ 62,181</u>	<u>\$ 91,080</u>
Liabilities				
Due to Other Governments.....	<u>\$ 62,181</u>	<u>\$ 91,080</u>	<u>\$ 62,181</u>	<u>\$ 91,080</u>

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

For the Last Six Years

	2010	2009	2008	2007	2006	2005
Revenue						
Local Sources						
Local option	\$ 49,786,925	\$ 48,754,219	\$ 46,212,046	\$ 43,826,641	\$ 42,087,405	\$ 40,599,831
Tuition	647,364	—	—	—	—	—
Other	3,826,358	3,997,924	5,363,665	5,803,902	4,545,891	3,374,140
Intermediate sources	—	—	10,330	2,215	2,725	131,022
State sources	54,520,646	61,072,325	60,639,195	55,888,686	52,891,722	49,774,462
Federal sources	15,949,372	8,158,825	5,910,793	6,968,832	7,133,501	7,724,946
Total	<u>\$ 124,730,665</u>	<u>\$ 121,983,293</u>	<u>\$ 118,136,029</u>	<u>\$ 112,490,276</u>	<u>\$ 106,661,244</u>	<u>\$ 101,604,401</u>
Expenditures						
Instruction						
Regular instruction...	\$ 53,410,072	\$ 49,745,136	\$ 47,238,480	\$ 39,294,245	\$ 36,854,924	\$ 36,885,149
Special instruction ...	22,045,710	19,210,024	17,777,102	17,764,190	23,909,417	20,432,358
Vocational instruction	197,814	185,276	225,193	1,238,916	1,441,783	1,225,442
Other instruction	2,478,531	2,672,282	2,725,126	7,171,142	2,610,481	3,065,679
Support Services						
Student services	2,559,696	3,133,821	2,487,719	2,828,831	2,995,164	2,950,960
Instructional staff services	4,373,003	3,390,257	3,173,912	2,776,296	1,744,630	2,650,565
General administration services	1,161,982	1,072,601	1,161,352	803,132	1,067,712	910,675
School administration services	5,758,327	5,471,176	5,720,145	5,915,315	5,656,379	4,851,254
Business and central administration services	3,909,258	5,325,264	2,766,553	2,663,198	3,308,954	2,801,451
Operation and maintenance of plant services	9,850,642	9,919,474	9,286,639	9,769,436	8,244,959	9,447,732
Transportation services	3,191,138	2,182,716	2,994,845	3,333,897	3,234,530	2,742,655
Noninstructional programs	17,099	14,950	27,082	30,907	5,264	99,458
Other Expenditures						
Facilities acquisition.	17,750,265	38,925,059	14,066,142	22,003,212	10,164,017	13,136,293
Long-Term Debt						
Principal	—	35,000,000	—	—	—	—
Interest and other charges	1,740,400	1,663,100	1,663,891	1,662,500	—	—
AEA flowthrough	4,966,096	4,221,658	4,047,085	3,790,584	3,558,701	3,388,142
Total	<u>\$ 133,410,033</u>	<u>\$ 182,132,794</u>	<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, 2010

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 Nutrition Cluster			
School Breakfast Program	10.553	FY 10	\$ 608,119
National School Lunch Program - Food Donation (noncash)	10.555	FY 10	275,267
National School Lunch Program	10.555	FY 10	<u>2,553,190</u>
Total Child Nutrition Cluster			<u>3,436,576</u>
Child and Adult Care Food Program	10.558	FY 10	<u>12,495</u>
Child Nutrition Discretionary Grants Limited Availability	10.579	FY 10	<u>83,111</u>
Total U.S. Department of Agriculture			<u>3,532,182</u>
U.S. Department of Justice			
Pass-Through From City of Waterloo, Iowa			
Public Safety Partnership and Community Policing Grants	16.710	FY 10	<u>17,401</u>
U.S. Department of Education			
Direct			
Fund for the Improvement of Education	84.215	V215L042043	<u>534,955</u>
Indirect			
Pass-Through From Iowa Department of Education			
Title I Cluster			
Title I Grants to Local Educational Agencies	84.010	FY 10	3,761,609
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY 09	<u>686,713</u>
Total Title I Cluster			<u>4,448,322</u>
Special Education - Grants to States	84.027	FY 10	<u>99,588*</u>
Career and Technical Education - Basic Grants to States	84.048	FY 10	<u>198,211</u>
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	FY 10	<u>73,180</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 10	<u>77,534</u>
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	FY 10	<u>50,931</u>
Reading First State Grants	84.357	FY 10	<u>318,100</u>
English Language Acquisition Grants	84.365	FY 10	<u>120,722</u>
Improving Teacher Quality State Grants	84.367	FY 10	<u>836,596</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

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 Iowa Department of Education			
Grants for State Assessments and Related Activities	84.369	FY 10	<u>\$ 65,598</u>
ARRA - State Fiscal Stabilization Fund (SFSF) -			
Education State Grants, Recovery Act	84.394	FY 10	<u>5,295,889</u>
Total Pass-Through From Iowa Department of			
Education			<u>11,584,671</u>
Pass-Through From Area Education Agency 267			
Special Education Cluster			
Special Education - Grants to States	84.027	FY 10	675,003
ARRA - Special Education - Grants to States,			
Recovery Act.....	84.391	FY 10	<u>1,351,984</u>
Total Special Education Cluster			<u>2,026,987*</u>
Educational Technology State Grants	84.318	FY 10	<u>71,206</u>
Total Pass-Through from Area Education			
Agency 267			<u>2,098,193</u>
Total U.S. Department of Education.....			<u>14,217,819</u>
U.S. Department of Health and Human Services			
Pass-Through From Iowa Department of Human Services			
Child Care and Development Block Grant	93.575	FY 10	<u>47,096</u>
Pass-Through From Tri-County Child and Family			
Development Council, Inc.			
Head Start	93.600	FY 10	<u>704,924</u>
Total U.S. Department of Health and Human			
Services			<u>752,020</u>
Total			<u>\$ 18,519,422</u>

*Total Special Education Cluster - CFDA 84.027 and 84.391 - \$2,126,575

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

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.

HOGAN • HANSEN

A Professional Corporation

Certified Public Accountants and Consultants

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, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated December 22, 2010. 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 an 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. We did not identify any deficiencies in internal control that we consider to be significant deficiencies or material weaknesses, as defined below.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part IV of the accompanying schedules of findings and questioned costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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 Waterloo Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties



HOGAN - HANSEN

Mason City, Iowa
December 22, 2010

HOGAN ♦ HANSEN

A Professional Corporation

Certified Public Accountants and Consultants

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, 2010. The Waterloo Community School District's major federal programs are identified in Part I of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of 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 OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2010. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which is described as item 10-III-C-A in the accompanying schedule of findings and questioned costs.

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 grant agreements 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Waterloo Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance that we consider to be a material weakness.

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented, detected and corrected on a timely basis.

The Waterloo Community School District's responses to the 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 Waterloo Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
December 22, 2010

Schedule of Findings and Questioned Costs

Year Ended June 30, 2010

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 no

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

84.367
84.394

Name of Federal Program or Cluster
Improving Teacher Quality State Grants
ARRA - State Fiscal Stabilization Fund
(SFSF) - Education State Grants,
Recovery Act

Clustered Programs

10.553
10.555
84.010

84.389

84.027
84.391

School Breakfast Program
National School Lunch Program
Title I Grants to Local Educational
Agencies
Title I Grants to Local Educational
Agencies, Recovery Act
Special Education - Grants to States
ARRA - Special Education - Grants
to States, Recovery Act

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

\$555,583

Auditee qualified as low-risk auditee? yes no

Schedule of Findings and Questioned Costs

Year Ended June 30, 2010

Part II: Findings Related to the Financial Statements

Internal Control Deficiencies - There were no matters reported.

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

Part III: Findings and Questioned Costs for Federal Awards

Instances of Noncompliance

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2010
U.S. Department of Agriculture
Passed Through the Iowa Department of Education

10-III-C-A Verification of Free and Reduced Price Meal Applications

Prior Year Finding and Recommendation - The District is required to verify the free and reduced price eligibility of households selected from a sample of approved applications on file. The District indicated a random sampling method was used to select 3% of the total approved applications on file. We noted for the year ended June 30, 2009, the District should have sampled 59 applications but only selected 49. We recommend the District establish procedures to sample the appropriate number of applications.

Current Year Finding - The District again did not select a full 3% of the applications. The District should have sampled 66 applications but only selected 63.

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

District's Response - An appropriate sample selection will be done by the food service personnel.

Auditor's Conclusion - Response accepted.

Internal Control Deficiencies - There were no matters reported.

Part IV: Other Findings Related to Required Statutory Reporting

10-IV-A Certified Budget

Finding - Disbursements for the year ended June 30, 2010 exceeded the certified budget amounts in the instruction functional 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.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2010

District's Response - The District did not exceed its total spending authority for the year ended June 30, 2010 and will in the future amend its budget by functional area as required to be in compliance with the Code of Iowa.

Auditor's Conclusion - Response accepted.

10-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.

10-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.

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

10-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.

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

10-IV-G Certified Enrollment

Finding - The District's supporting documentation did not agree to the Project Easier and Certified Enrollment (PEACE) report submitted to the Iowa Department of Education. The certified enrollment report is prepared from documentation maintained by the District to support the basic enrollment certified to the Iowa Department of Education in October, 2009. The variances resulted in a total reduction of certified students by a net of 31.6 students.

Auditor's Recommendation - The District should ensure that their system reconciles to the PEACE system for the number of students being reported within the certified enrollment. The Iowa Department of Management and Iowa Department of Education should be notified of the variances.

District's Response and Corrective Action Plan - The District will contact the Iowa Department of Education and Iowa Department of Management notifying them of the above changes. The District will continue to monitor supporting information and reconciliation of data submitted to the Iowa Department of Education.

Auditor's Conclusion - Response accepted.

10-IV-H Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

10-IV-I 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.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2010

- 10-IV-J Certified Annual Report** - The certified annual report was filed with the Iowa Department of Education.
- 10-IV-K Categorical Funding** - No instances were found of categorical funding being used to supplant rather than supplement other funds.
- 10-IV-L Statewide Sales and Services Tax** - No instances of noncompliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales and services tax. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales and services tax are as follows:

Beginning balance	\$	—
Statewide sales and services tax revenue.....		11,109,593
Expenditures/Transfers Out		
School Infrastructure		
Construction in progress		<u>11,109,593</u>
Ending Balance	\$	<u>—</u>