

**WATERLOO COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011**

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Introductory Section

Board of Education and School District Officials

At June 30, 2011

Name	Title	Term Expires
Board of Education		
Mike Young	President (October, 2010 - current)	September, 2011
	Vice President (July, 2010 - September, 2010)	
Bernice Richard	Vice President (October, 2010 - current)	September, 2013
	President (July, 2010 - September, 2010)	
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	2011
Michael Coughlin	District Treasurer	2011
Steve Weidner	Attorney	Indefinite
Timothy Luce	Attorney	Indefinite

Financial Section



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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, 2011, 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, 2011, 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 January 13, 2012 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, 42 and 43 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, 2010, 2009 and 2008 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The financial statements for the years ended June 30, 2002 through 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 44 through 59, 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

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Mason City, Iowa
January 13, 2012

MANAGEMENT’S DISCUSSION AND ANALYSIS

The Waterloo Community School District provides this management’s 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, 2011. 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 \$116,077,631 (net assets). Of this amount \$13,832,134 (unrestricted net assets) may be used to meet the government’s ongoing obligations to citizens and creditors.
- The General Fund cash and pooled investments increased \$4,102,928 and the General Fund balance increased \$3,319,057 due to an increase in state funding received.
- The General Fund Unspent Balance Ratio which measures the percent of Authorized Budget Unspent Balance improved from 8.39% to 11.6%. This was achieved through budget expenditure management.
- The State of Iowa granted a 2% allowable growth rate for fiscal year 2011. The State previously granted 2% allowable growth in fiscal year 2010 and 4% per year for fiscal years 2006-2009.
- 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.
- The District has completed remodeling projects of McKinstry Elementary to incorporate Expo Alternative High School, Waterloo Educational Behavioral Center (WEBC) and Special Education Center (STARC) which opened December, 2010 and Kittrell Early Childhood Center to open September, 2011. The old Expo High School was sold and the Devonshire Special Education program operated by AEA 267 was closed to move both programs to the new Expo Alternative Education Center. Completion of Fred Becker Elementary is planned for January, 2012 which will encompass the students of the former Black Hawk and Edison Elementary buildings.
- 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
Expo Alternative Education Center	2010-2011	Remodel Building
Kittrell Early Childhood Center	2010-2011	Remodel Building

- The District property tax rate of \$16.44 per thousand dollars of taxable property valuation remains below the average for the 25 largest districts within Iowa.

Overview of the Financial Statements

The annual report consist of a series of financial statements and other information, as follows:

Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The government-wide financial statements consist of a statement of net assets and a statement of activities. These provide information about the activities of the Waterloo Community School District as a whole and present an overall view of the District's finances.

The fund financial statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Waterloo Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which the Waterloo Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required supplementary information 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.

Other supplementary information provides detailed information about the nonmajor governmental and proprietary funds. In addition, the schedule of expenditures of federal awards provides details of various federal programs benefiting the District.

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

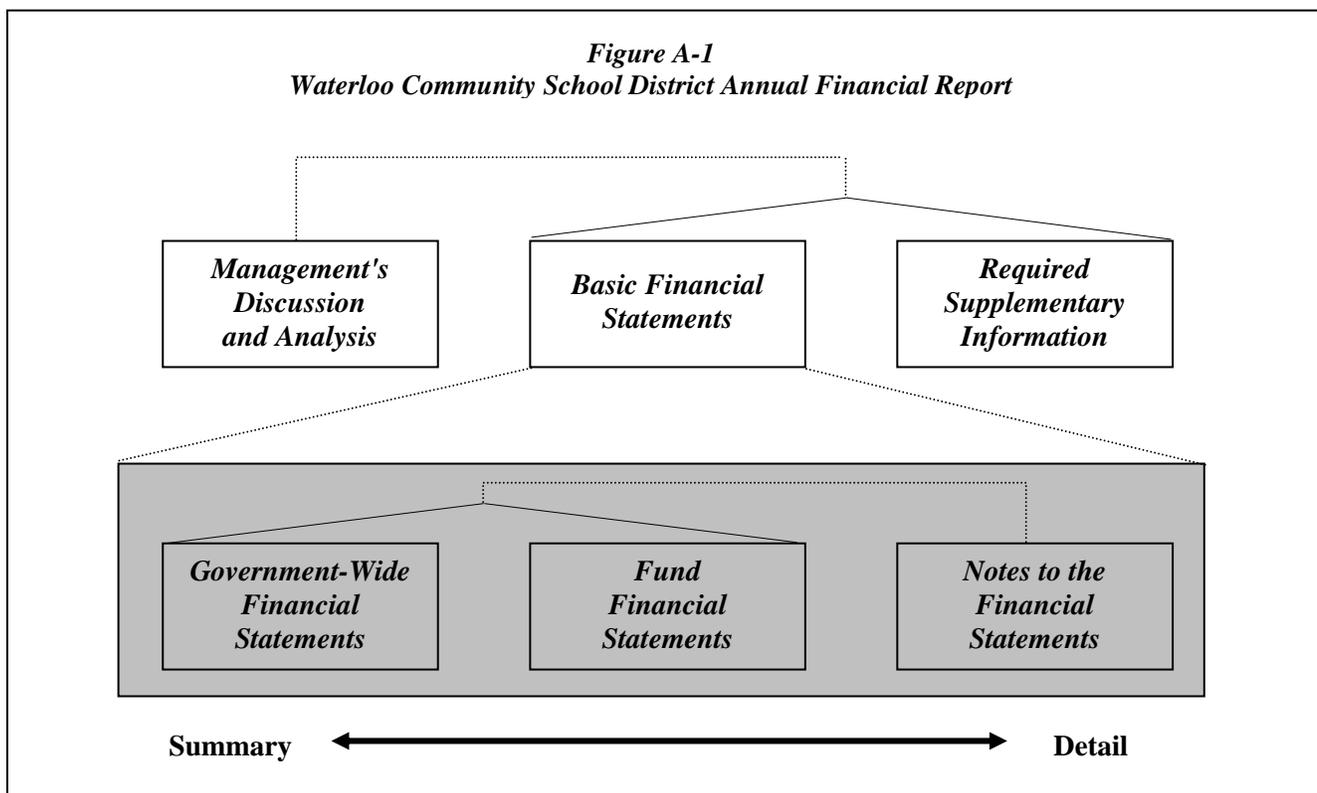


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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 • Schedule 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 financial 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.

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, school uniforms and reading materials for students within the District.

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 schedule 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, 2011 compared to June 30, 2010 (as restated - See Note 13 for details of the restatements).

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total District</u>		<u>Total Change 2011-10</u>
	<u>2011</u>	<u>2010</u> (as Restated)	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u> (as Restated)	
Current and other assets	\$ 84,060,774	\$ 67,056,560	\$ 306,438	\$ 381,405	\$ 84,367,212	\$ 67,437,965	25.1%
Capital assets	<u>161,045,782</u>	<u>147,492,465</u>	<u>1,380,765</u>	<u>1,522,347</u>	<u>162,426,547</u>	<u>149,014,812</u>	9.0
Total Assets	<u>\$ 245,106,556</u>	<u>\$ 214,549,025</u>	<u>\$ 1,687,203</u>	<u>\$ 1,903,752</u>	<u>\$ 246,793,759</u>	<u>\$ 216,452,777</u>	14.0
Current liabilities	\$ 60,298,939	\$ 56,996,427	\$ 50,293	\$ 119,101	\$ 60,349,232	\$ 57,115,528	5.7
Long-term liabilities	<u>70,366,896</u>	<u>48,162,867</u>	<u>—</u>	<u>—</u>	<u>70,366,896</u>	<u>48,162,867</u>	46.1
Total Liabilities	<u>\$ 130,665,835</u>	<u>\$ 105,159,294</u>	<u>\$ 50,293</u>	<u>\$ 119,101</u>	<u>\$ 130,716,128</u>	<u>\$ 105,278,395</u>	24.2
Net Assets:							
Invested in capital assets, net of related debt	\$ 91,647,934	\$ 101,198,798	\$ 1,380,765	\$ 1,522,347	\$ 93,028,699	\$ 102,721,145	(9.4)
Restricted	9,216,798	4,113,495	—	—	9,216,798	4,113,495	124.1
Unrestricted	<u>13,575,989</u>	<u>4,077,438</u>	<u>256,145</u>	<u>262,304</u>	<u>13,832,134</u>	<u>4,339,742</u>	218.7
Total Net Assets	<u>\$ 114,440,721</u>	<u>\$ 109,389,731</u>	<u>\$ 1,636,910</u>	<u>\$ 1,784,651</u>	<u>\$ 116,077,631</u>	<u>\$ 111,174,382</u>	4.4

The District's combined net assets increased 4.4%, or approximately \$4,903,000, from the prior year. The largest portion of the District's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. The District increased their capitalization threshold from \$1,000 to \$5,000 and retroactively applied the change. See Note 13 to the financial statements.

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 \$5,103,000, or 124.1%, over the prior year. The increase was primarily a result of sinking fund and reserve fund requirements for revenue bonds issued in the current year.

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 - increased approximately \$9,492,000, or 218.7%. The increase in unrestricted net assets was primarily a result of the District's surplus of \$5.1 million in governmental activities along with decreased net assets invested in capital assets, net of related debt. The District's debt related to capital assets was significantly increased due to additional bonds issued in the current year.

Changes in Net Assets - Figure A-4 shows the changes in net assets for the year ended June 30, 2011 compared to the year ended June 30, 2010.

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total District</u>		<u>Total Change 2011-10</u>
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	
	(as Restated)				(as Restated)		
Revenue							
Program Revenue							
Charges for services	\$ 3,039,488	\$ 2,812,987	\$ 1,354,825	\$ 1,378,956	\$ 4,394,313	\$ 4,191,943	4.8%
Operating grants, contributions and restricted interest	25,880,878	29,895,351	3,819,569	3,877,176	29,700,447	33,772,527	(12.1)
Capital grants, contributions and restricted interest	1,132,513	449,265	48,461	399,383	1,180,974	848,648	39.2
General Revenue							
Property taxes	39,161,521	38,677,332	—	—	39,161,521	38,677,332	1.3
Statewide sales, services and use tax	8,746,420	11,109,593	—	—	8,746,420	11,109,593	(21.3)
Unrestricted state grants	50,960,501	41,897,979	—	—	50,960,501	41,897,979	21.6
Unrestricted investment earnings	48,056	96,319	18	1,819	48,074	98,138	(51.0)
Total Revenue	<u>128,969,377</u>	<u>124,938,826</u>	<u>5,222,873</u>	<u>5,657,334</u>	<u>134,192,250</u>	<u>130,596,160</u>	2.8
Program Expenses							
Instruction	83,947,810	83,646,154	—	—	83,947,810	83,646,154	0.4
Support services	33,171,860	35,209,728	—	—	33,171,860	35,209,728	(5.8)
Noninstructional programs	11,533	17,099	—	—	11,533	17,099	(32.6)
Other	6,787,184	5,043,143	5,370,614	5,621,789	12,157,798	10,664,932	14.0
Total Expenses	<u>123,918,387</u>	<u>123,916,124</u>	<u>5,370,614</u>	<u>5,621,789</u>	<u>129,289,001</u>	<u>129,537,913</u>	(0.2)
Excess (Deficiency)							
Before Transfers	5,050,990	1,022,702	(147,741)	35,545	4,903,249	1,058,247	363.3
Transfers	—	(60,000)	—	60,000	—	—	0.0
Change in Net Assets	5,050,990	962,702	(147,741)	95,545	4,903,249	1,058,247	363.3
Net Assets - Beginning of Year	<u>109,389,731</u>	<u>108,427,029</u>	<u>1,784,651</u>	<u>1,689,106</u>	<u>111,174,382</u>	<u>110,116,135</u>	1.0
Net Assets - End of Year	<u>\$ 114,440,721</u>	<u>\$ 109,389,731</u>	<u>\$ 1,636,910</u>	<u>\$ 1,784,651</u>	<u>\$ 116,077,631</u>	<u>\$ 111,174,382</u>	4.4

In fiscal year 2011, property taxes and unrestricted state grants accounted for 69.9% of governmental activities revenue while charges for services and operating grants, contributions and restricted interest accounted for 99.1% of business-type activities revenue.

As shown in Figure A-4, the District as a whole experienced a 2.8% increase in revenue and a 0.2% decrease in expenses. Property taxes increased approximately \$484,000 and unrestricted state grants increased approximately \$9,063,000 to fund expenses. The decrease in expenses is related to fewer costs in the operation and maintenance of plant services functional area.

Governmental Activities

Revenue for governmental activities was \$128,969,377 and expenses were \$123,918,387, which amounted to an increase in net assets of \$5,050,990. The following table presents the total and net cost of the District’s major governmental activities: instruction, support services, noninstructional programs and other expenses.

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

	Total Total Cost of Services		Change 2010-11	Total Net Cost of Services		Change 2010-11
	2011	2010		2011	2010 (as Restated)	
Instruction	\$ 83,947,810	\$ 83,646,154	(0.4)%	\$ 56,141,738	\$ 51,706,250	8.6%
Support services	33,171,860	35,209,728	(5.8)	30,925,053	33,992,029	(9.0)
Noninstructional programs	11,533	17,099	(32.6)	11,533	17,099	(32.6)
Other	<u>6,787,184</u>	<u>5,043,143</u>	(34.6)	<u>6,787,184</u>	<u>5,043,143</u>	34.6
Total	<u>\$ 123,918,387</u>	<u>\$ 123,916,124</u>	0.0	<u>\$ 93,865,508</u>	<u>\$ 90,758,521</u>	3.4

- The total cost of all governmental activities was \$123,918,387, an increase of less than 0.1% from 2009-2010.
- The cost financed by users of the District’s programs was \$3,039,488.
- Federal and state governments and private entities subsidized certain programs with grants and contributions totaling \$27,013,391.
- The net remaining cost of governmental activities was financed with \$47,907,941 in property and other taxes, \$50,960,501 in unrestricted state grants and \$48,056 in unrestricted investment earnings.

Business-Type Activities

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

- Business-type activities expenses exceeded revenue by \$147,741 for 2010-2011. In 2009-2010 revenue exceeded expenses by \$95,545.
- Charges for services represent 25.9% of total revenue compared to 24.4% for 2009-2010. 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 \$3,819,569, or 73.1%, 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 \$26,076,047 which was well above last year's ending fund balances of \$11,022,182. The main reasons for the increase in combined fund balances at the end of fiscal year 2011 was decreased support services spending and net proceeds from issuing bonds.

Over 11.3% of the governmental fund balance constitutes unassigned fund balance, which is available for spending at the District's discretion. The remainder of fund balance is nonspendable, restricted, committed or assigned to indicate that it is not available for new spending.

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 \$2,935,563 while total fund balance increased to \$10,852,933.

The fund balance of the District's general fund increased by \$3,319,057, or 44.1%, during the current fiscal year. The main reason for this increase was an increase in state funding that occurred during the fiscal year.

The **Debt Service Fund** balance increased to \$5,486,671 at the end of fiscal year 2011. The Fund had no balance at the end of fiscal year 2010. Current year revenue and expenditures included bond proceeds and bond principal and interest payments. The increase in fund balance is related to bond proceeds held and restricted for future bond interest and principal payments.

The **Capital Projects Fund** balance increased due to the sale of \$69,159,539 of revenue bonds during fiscal year 2011. The District ended fiscal year 2010 with a balance of \$1,256,298. Fiscal year 2011 ended with a balance of \$7,661,501, consisting primarily of unexpended bond proceeds which will be expended as building and remodeling projects are completed.

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 amended its original budget once for 2010-2011 to increase expenditures due to the retirement of revenue bonds.

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 \$2,656,331 less than total budgeted revenue, a variance of 2%. Even though local tax revenue increased in fiscal year 2011, the total amount received was less than originally anticipated. The District also over budgeted for state resources and under budgeted for federal sources as they were uncertain to the source of various funding, the net effect of the error in budgeting was immaterial.

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 expenditures due to the timing of the completion of various construction and repair related projects and refunding bond payments which were later reclassified as an other financing use.

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, 2011, the District had invested \$162,426,547, 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 \$4,252,667 for Governmental Activities and \$266,930 for Business-Type Activities.

Construction in progress of \$28,986,472 was for Fred Becker, Highland, Kingsley and Kittrell Elementary Schools, East High School and the Education Service Center projects.

**Figure A-6
Capital Assets, Net of Depreciation**

	Governmental Activities		Business-Type Activities		Total District		Total Change 2011-10
	2011	2010 (as Restated)	2011	2010	2011	2010	
Land	\$ 2,939,355	\$ 1,547,685	\$ —	\$ —	\$ 2,939,355	\$ 1,547,685	89.9%
Construction in progress	28,986,472	43,943,469	—	—	28,986,472	43,943,469	(34.0)
Buildings and improvements	117,612,880	90,320,446	—	—	117,612,880	90,320,446	30.2
Improvements other than buildings	6,095,733	6,315,296	—	—	6,095,733	6,315,296	(3.5)
Furniture and equipment	<u>5,411,342</u>	<u>5,365,569</u>	<u>1,380,765</u>	<u>1,522,347</u>	<u>6,792,107</u>	<u>6,887,916</u>	(1.4)
Total	<u>\$ 161,045,782</u>	<u>\$ 147,492,465</u>	<u>\$ 1,380,765</u>	<u>\$ 1,522,347</u>	<u>\$ 162,426,547</u>	<u>\$ 149,014,812</u>	9.0

The increase from 2009-2010 to 2010-2011 is due to the continued work and completion of several construction projects. The amount of construction in progress decreased by \$14,956,997, land increased \$1,391,670 and buildings and improvements increased by \$27,292,434.

Construction in progress activities during 2010 included:

- New construction of Kittrell Elementary
- New construction of Fred Becker Elementary
- New construction at Highland Elementary
- New construction at Carver Middle School
- New parking lot at Central Middle School
- Renovation of East High School auditorium
- Renovation of West High School locker rooms

Construction in progress activities during 2011 included:

- New construction of Fred Becker Elementary
- New construction at Highland Elementary
- Renovation of Kingsley Elementary
- Renovation of Education Service Center
- Renovation of East High School auditorium
- Renovation of Kittrell Elementary School annex

Long-Term Debt

At June 30, 2011, the District had \$69,397,848 in total long-term debt outstanding. This represents an increase of approximately 49.9% from last year. (See Figure A-7)

The Constitution of the State of Iowa limits the amount of debt districts can issue to 5% of the assessed value of all taxable property within the District. The District's outstanding debt is significantly below its constitutional debt limit of approximately \$203 million.

In April, 2011, the District issued \$69,159,359 of statewide sales, services and use tax revenue bonds for various construction projects and to retire revenue bonds issued in 2009.

Figure A-7
Outstanding Long-Term Obligations

	<u>Total District</u>		Total Change June 30, 2010-11
	<u>June 30,</u>		
	2011	2010	
Revenue bonds	\$ 69,159,539	\$ 46,400,000	49.1%
Revenue bonds premium	238,309	—	100.0
Revenue bonds discount	—	(106,333)	(100.0)
Total	<u>\$ 69,397,848</u>	<u>\$ 46,293,667</u>	49.9

More detailed information on the District's capital assets and long-term debt can be found in Notes 4 and 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 2011, 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 2010-2011 budget allowable growth at 2% which required additional staff reductions and operational efficiencies. As state budget struggles continued, allowable growth for 2011-2012 was set at 0% and 2012-2013 was approved for 2%. A reduction in allowable growth will not only reduce cash received, but reduce the spending authority of the District.
- Growth in employee wages and benefits has outpaced state funding to schools. Salary and benefits represent approximately 74% 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 reductions, but retirements will allow the District to reduce the positions vacated for 2011-2012. Overhead costs, such as heating and vehicle fuel are volatile due to the world economic status and allows little flexibility for budget planning.
- District enrollment declined approximately 300 students in 2007-2010 but showed a recovery by increasing 85 students in the Fall of 2011. Under Iowa's school funding formula, District funding is highly dependent upon District enrollments. Future enrollment stability is a critical element in maintaining a sound financial foundation.
- Effective July 1, 2011, an incremental increase in the employee's and employer's share of Iowa Public Employees Retirement System (IPERS) contributions will go into effect.
- By Board resolution, 5% of the unspent authorized balance was moved to committed fund balance to support District policy to maintain a minimum fund balance of 5%. This balance cannot be budgeted or expended unless the Board action votes to approve.

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, 2011

	Governmental Activities	Business- Type Activities	Total
Assets			
Cash and pooled investments	\$ 32,159,873	\$ 209,450	\$ 32,369,323
Receivables, Net of Allowance for Uncollectible Amounts			
Property Taxes			
Current year delinquent.....	464,457	—	464,457
Succeeding year	40,049,487	—	40,049,487
Due from other governments	4,377,913	16,906	4,394,819
Accounts	1,296,920	—	1,296,920
Inventories	225,453	80,082	305,535
Restricted cash.....	5,486,671	—	5,486,671
Capital assets, net of accumulated depreciation	129,119,955	1,380,765	130,500,720
Capital assets not being depreciated	<u>31,925,827</u>	<u>—</u>	<u>31,925,827</u>
Total Assets	<u>\$ 245,106,556</u>	<u>\$ 1,687,203</u>	<u>\$ 246,793,759</u>
Liabilities			
Accounts payable	\$ 5,166,679	\$ 9,385	\$ 5,176,064
Salaries and benefits payable	10,342,931	24,002	10,366,933
Accrued interest payable	434,919	—	434,919
Unearned Revenue			
Succeeding year property taxes	40,049,487	—	40,049,487
Other	2,425,630	16,906	2,442,536
Long-Term Liabilities			
Portion Due Within One Year			
Revenue bonds payable	1,167,952	—	1,167,952
Early retirement payable	415,000	—	415,000
Compensated absences	296,341	—	296,341
Portion Due After One Year			
Revenue bonds payable	68,229,896	—	68,229,896
Early retirement payable	830,000	—	830,000
Net OPEB liability.....	<u>1,307,000</u>	<u>—</u>	<u>1,307,000</u>
Total Liabilities	<u>130,665,835</u>	<u>50,293</u>	<u>130,716,128</u>
Net Assets			
Invested in capital assets, net of related debt	91,647,934	1,380,765	93,028,699
Restricted for			
Categorical funding.....	1,541,917	—	1,541,917
Management levy purposes.....	981,162	—	981,162
Physical plant and equipment.....	548,187	—	548,187
Student activities.....	1,093,780	—	1,093,780
Debt service	5,051,752	—	5,051,752
Unrestricted	<u>13,575,989</u>	<u>256,145</u>	<u>13,832,134</u>
Total Net Assets	<u>114,440,721</u>	<u>1,636,910</u>	<u>116,077,631</u>
Total Liabilities and Net Assets	<u>\$ 245,106,556</u>	<u>\$ 1,687,203</u>	<u>\$ 246,793,759</u>

See accompanying notes to the financial statements.

Statement of Activities

Year Ended June 30, 2011

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	\$ 54,887,612	\$ 376,026	\$ 17,872,852	\$ —	\$ (36,638,734)	\$ —	\$ (36,638,734)
Special instruction	26,380,484	457,025	7,077,469	—	(18,845,990)	—	(18,845,990)
Vocational instruction	194,178	—	366,209	—	172,031	—	172,031
Other instruction	<u>2,485,536</u>	<u>1,656,491</u>	<u>—</u>	<u>—</u>	<u>(829,045)</u>	<u>—</u>	<u>(829,045)</u>
Total Instruction	<u>83,947,810</u>	<u>2,489,542</u>	<u>25,316,530</u>	<u>—</u>	<u>(56,141,738)</u>	<u>—</u>	<u>(56,141,738)</u>
Support Services							
Student services	2,847,873	—	—	—	(2,847,873)	—	(2,847,873)
Instructional staff services	3,558,016	—	383,095	—	(3,174,921)	—	(3,174,921)
General administration services	1,085,216	—	—	—	(1,085,216)	—	(1,085,216)
School administration services	5,863,759	—	4,500	—	(5,859,259)	—	(5,859,259)
Business and central administration services	4,758,036	—	—	—	(4,758,036)	—	(4,758,036)
Operation and maintenance of plant services	11,177,982	543,393	—	1,132,513	(9,502,076)	—	(9,502,076)
Transportation services	<u>3,880,978</u>	<u>6,553</u>	<u>176,753</u>	<u>—</u>	<u>(3,697,672)</u>	<u>—</u>	<u>(3,697,672)</u>
Total Support Services	<u>33,171,860</u>	<u>549,946</u>	<u>564,348</u>	<u>1,132,513</u>	<u>(30,925,053)</u>	<u>—</u>	<u>(30,925,053)</u>
Noninstructional Programs	<u>11,533</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(11,533)</u>	<u>—</u>	<u>(11,533)</u>
Other Expenditures							
Long-term debt interest and fiscal charges	3,264,406	—	—	—	(3,264,406)	—	(3,264,406)
Depreciation (unallocated)	<u>3,522,778</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(3,522,778)</u>	<u>—</u>	<u>(3,522,778)</u>
Total Other Expenditures	<u>6,787,184</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(6,787,184)</u>	<u>—</u>	<u>(6,787,184)</u>
Total Governmental Activities	<u>123,918,387</u>	<u>3,039,488</u>	<u>25,880,878</u>	<u>1,132,513</u>	<u>(93,865,508)</u>	<u>—</u>	<u>(93,865,508)</u>
Business-Type Activities							
Noninstructional Programs							
Nutrition services	5,362,188	1,354,825	3,819,124	48,461	—	(139,778)	(139,778)
Day care services	<u>8,426</u>	<u>—</u>	<u>445</u>	<u>—</u>	<u>—</u>	<u>(7,981)</u>	<u>(7,981)</u>
Total Business-Type Activities	<u>5,370,614</u>	<u>1,354,825</u>	<u>3,819,569</u>	<u>48,461</u>	<u>—</u>	<u>(147,759)</u>	<u>(147,759)</u>
Total	<u>\$ 129,289,001</u>	<u>\$ 4,394,313</u>	<u>\$ 29,700,447</u>	<u>\$ 1,180,974</u>	<u>(93,865,508)</u>	<u>(147,759)</u>	<u>(94,013,267)</u>
General Revenue							
Property taxes, levied for general purposes					39,161,521	—	39,161,521
Statewide sales, services and use tax					8,746,420	—	8,746,420
Unrestricted state grants					50,960,501	—	50,960,501
Unrestricted investment earnings					48,056	18	48,074
Total General Revenue					<u>98,916,498</u>	<u>18</u>	<u>98,916,516</u>
Change in Net Assets					<u>5,050,990</u>	<u>(147,741)</u>	<u>4,903,249</u>
Net Assets - Beginning of Year, as previously reported					114,258,352	1,784,651	116,043,003
Prior period adjustment (Note 13)					<u>(4,868,621)</u>	<u>—</u>	<u>(4,868,621)</u>
Net Assets - Beginning of Year, as Restated					<u>109,389,731</u>	<u>1,784,651</u>	<u>111,174,382</u>
Net Assets - End of Year					<u>\$ 114,440,721</u>	<u>\$ 1,636,910</u>	<u>\$ 116,077,631</u>

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

At June 30, 2011

	General	Debt Service	Capital Projects	All Other Nonmajor	Total
Assets					
Cash and pooled investments.....	\$ 22,182,526	\$ —	\$ 7,908,812	\$ 2,068,535	\$ 32,159,873
Receivables, Net of Allowance for Uncollectible Amounts					
Property Taxes					
Current year delinquent.....	411,231	—	29,598	23,628	464,457
Succeeding year.....	35,426,321	—	2,623,174	1,999,992	40,049,487
Due from other governments.....	2,920,096	—	1,457,655	162	4,377,913
Accounts	1,296,920	—	—	—	1,296,920
Inventories.....	225,453	—	—	—	225,453
Restricted cash	—	5,486,671	—	—	5,486,671
Total Assets.....	\$ 62,462,547	\$ 5,486,671	\$ 12,019,239	\$ 4,092,317	\$ 84,060,774
Liabilities and Fund Balances					
Liabilities					
Accounts payable.....	\$ 3,425,585	\$ —	\$ 1,724,868	\$ 16,226	\$ 5,166,679
Salaries and benefits payable.....	10,341,774	—	—	1,157	10,342,931
Deferred Revenue					
Succeeding year property taxes	35,426,321	—	2,623,174	1,999,992	40,049,487
Other	2,415,934	—	9,696	—	2,425,630
Total Liabilities.....	51,609,614	—	4,357,738	2,017,375	57,984,727
Fund Balances					
Nonspendable					
Inventory	225,453	—	—	—	225,453
Restricted for					
Categorical funding.....	1,541,917	—	—	—	1,541,917
Management levy purposes.....	—	—	—	981,162	981,162
Physical plant and equipment.....	—	—	548,187	—	548,187
Student activities.....	—	—	—	1,093,780	1,093,780
Debt service	—	5,486,671	—	—	5,486,671
Committed to					
Future general fund expenditures	6,150,000	—	—	—	6,150,000
Assigned to					
School infrastructure.....	—	—	7,113,314	—	7,113,314
Unassigned	2,935,563	—	—	—	2,935,563
Total Fund Balances.....	10,852,933	5,486,671	7,661,501	2,074,942	26,076,047
Total Liabilities and Fund Balances	\$ 62,462,547	\$ 5,486,671	\$ 12,019,239	\$ 4,092,317	\$ 84,060,774

See accompanying notes to the financial statements.

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

At June 30, 2011

Total Fund Balances for Governmental Funds (Page 16).....		\$ 26,076,047
<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.		161,045,782
Accrued interest payable on long-term liabilities is not due and payable in the current year and, therefore, is not reported as a liability in the governmental funds.....		(434,919)
Long-term liabilities, including revenue bonds payable, early retirement payable, compensated absences and other post-employment benefits, are not due and payable in the current year and, therefore, are not reported as liabilities in the governmental funds.		
Revenue bonds payable	\$ 69,159,539	
Unamortized bond premium.....	238,309	
Other postemployment benefits	1,307,000	
Compensated absences	296,341	
Early retirement payable	<u>1,245,000</u>	<u>(72,246,189)</u>
Net Assets of Governmental Activities (Page 14)		<u>\$ 114,440,721</u>

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

Year Ended June 30, 2011

	General	Debt Service	Capital Projects	All Other Nonmajor	Total
Revenue					
Local Sources					
Local taxes.....	\$ 34,654,111	\$ —	\$ 11,262,681	\$ 1,991,149	\$ 47,907,941
Tuition	724,552	—	—	—	724,552
Other	1,778,828	117	170,004	1,660,905	3,609,854
State sources	64,170,401	—	1,928	1,581	64,173,910
Federal sources	12,308,656	—	244,464	—	12,553,120
Total Revenue.....	<u>113,636,548</u>	<u>117</u>	<u>11,679,077</u>	<u>3,653,635</u>	<u>128,969,377</u>
Expenditures					
Current					
Instruction					
Regular instruction.....	52,930,622	—	—	1,403,980	54,334,602
Special instruction	21,249,843	—	—	48,543	21,298,386
Vocational instruction	161,738	—	—	—	161,738
Other instruction	801,753	—	—	1,611,463	2,413,216
Total Instruction.....	<u>75,143,956</u>	<u>—</u>	<u>—</u>	<u>3,063,986</u>	<u>78,207,942</u>
Support Services					
Student services.....	2,834,555	—	—	19,000	2,853,555
Instructional staff services ...	3,531,425	—	—	33,522	3,564,947
General administration services	1,059,036	—	8,271	19,697	1,087,004
School administration services	5,615,595	—	—	263,657	5,879,252
Business and central administration services....	4,631,444	—	30,317	22,021	4,683,782
Operation and maintenance of plant services	8,879,168	—	423,874	335,930	9,638,972
Transportation services	3,430,215	—	350,000	100,810	3,881,025
Total Support Services..	<u>29,981,438</u>	<u>—</u>	<u>812,462</u>	<u>794,637</u>	<u>31,588,537</u>
Noninstructional Programs	—	—	—	11,533	11,533
Other Expenditures					
Long-Term Debt					
Interest and fiscal charges	—	1,740,450	1,274,851	—	3,015,301
AEA flowthrough.....	5,132,642	—	—	—	5,132,642
Total Other Expenditures	<u>5,132,642</u>	<u>1,740,450</u>	<u>1,274,851</u>	<u>—</u>	<u>8,147,943</u>
Facilities Acquisition and Construction.....					
	—	—	18,959,552	—	18,959,552
Total Expenditures.....	<u>110,258,036</u>	<u>1,740,450</u>	<u>21,046,865</u>	<u>3,870,156</u>	<u>136,915,507</u>
Revenue Over (Under) Expenditures	<u>3,378,512</u>	<u>(1,740,333)</u>	<u>(9,367,788)</u>	<u>(216,521)</u>	<u>(7,946,130)</u>
Other Financing Sources (Uses)					
Refunding bonds issued	—	—	69,159,539	—	69,159,539
Premium on sale of revenue bonds	—	—	240,456	—	240,456
Refunding bond principal payments	—	(46,400,000)	—	—	(46,400,000)
Transfers in	—	53,627,004	—	59,455	53,686,459
Transfers out.....	(59,455)	—	(53,627,004)	—	(53,686,459)
Total Other Financing Sources (Uses).....	<u>(59,455)</u>	<u>7,227,004</u>	<u>15,772,991</u>	<u>59,455</u>	<u>22,999,995</u>
Net Change in Fund Balances	<u>3,319,057</u>	<u>5,486,671</u>	<u>6,405,203</u>	<u>(157,066)</u>	<u>15,053,865</u>
Fund Balance - Beginning of Year, as previously reported...					
	7,325,715	—	1,256,298	2,232,008	10,814,021
Prior period adjustment (Note 13)	208,161	—	—	—	208,161
Fund Balance - Beginning of Year, as Restated	<u>7,533,876</u>	<u>—</u>	<u>1,256,298</u>	<u>2,232,008</u>	<u>11,022,182</u>
Fund Balance - End of Year	<u>\$ 10,852,933</u>	<u>\$ 5,486,671</u>	<u>\$ 7,661,501</u>	<u>\$ 2,074,942</u>	<u>\$ 26,076,047</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, 2011

Change in Fund Balances - Total Governmental Funds (Page 18) **\$ 15,053,865**

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.....	\$ 17,908,756	
Depreciation expense	<u>(4,252,667)</u>	13,656,089

The net book value of the capital assets disposed of during the year. (102,772)

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

Revenue bonds issued.....	\$ (69,159,539)	
Revenue bonds premium	(240,456)	
Revenue bonds repaid	<u>46,400,000</u>	(22,999,995)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the governmental funds when due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due..... (144,919)

Amortization of premiums on bonds payable issued in the current year decreases current financial resources to governmental funds but it decreases liabilities in the statement of net assets..... 2,147

Amortization of discount on bonds payable issued in prior years increases current financial resources to governmental funds but it increases liabilities in the statement of net assets..... (106,333)

Payments on early retirement packages approved in the prior year are an expenditure in the governmental funds, but the payments reduce long-term liabilities in the statement of net assets..... 415,000

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	\$ (39,292)	
Other postemployment benefits	<u>(682,800)</u>	<u>(722,092)</u>

Change in Net Assets of Governmental Activities (Page 15) **\$ 5,050,990**

Statement of Net Assets - Proprietary Funds

At June 30, 2011

	Total Nonmajor Enterprise Funds
Assets	
Current Assets	
Cash and cash equivalents	\$ 209,450
Receivables, Net of Allowance for Uncollectible Amounts	
Intergovernmental	16,906
Inventories	<u>80,082</u>
Total Current Assets	<u>306,438</u>
Noncurrent Assets	
Capital assets, net of accumulated depreciation	<u>1,380,765</u>
Total Assets	<u>\$ 1,687,203</u>
Liabilities and Net Assets	
Current Liabilities	
Accounts payable	\$ 9,385
Salaries and benefits payable	24,002
Unearned revenue	<u>16,906</u>
Total Current Liabilities	<u>50,293</u>
Net Assets	
Invested in capital assets	1,380,765
Unrestricted	<u>256,145</u>
Total Net Assets	<u>1,636,910</u>
Total Liabilities and Net Assets	<u>\$ 1,687,203</u>

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

Year Ended June 30, 2011

	Total Nonmajor Enterprise Funds
Revenue	
Local Sources	
Charges for service.....	\$ 1,299,257
Other receipts	<u>55,568</u>
Total Operating Revenue	<u>1,354,825</u>
Operating Expenses	
Noninstructional Programs	
Salaries	1,629,527
Benefits	703,859
Purchased services.....	91,646
Supplies	2,669,253
Other	9,399
Depreciation.....	<u>266,930</u>
Total Operating Expenses	<u>5,370,614</u>
Loss From Operations	<u>(4,015,789)</u>
Nonoperating Revenue	
State sources.....	45,428
Federal sources.....	3,774,141
Interest on investments	18
Capital contributions.....	<u>48,461</u>
Total Nonoperating Revenue	<u>3,868,048</u>
Decrease in Net Assets	(147,741)
Net Assets - Beginning of Year	<u>1,784,651</u>
Net Assets - End of Year	<u>\$ 1,636,910</u>

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2011

	Total Nonmajor Enterprise Funds
Cash Flows Used in Operating Activities	
Cash received from sale of lunches and breakfasts.....	\$ 1,299,257
Cash received from other	55,568
Cash paid to employees for services.....	(2,392,341)
Cash paid to suppliers for goods and services.....	<u>(2,485,623)</u>
Net Cash Used in Operating Activities	<u>(3,523,139)</u>
Cash Flows Provided by Noncapital Financing Activities	
State grants received.....	45,428
Federal grants received.....	<u>3,503,537</u>
Net Cash Provided by Noncapital Financing Activities	<u>3,548,965</u>
Cash Flows Used in Capital and Related Financing Activities	
Acquisition of capital assets	<u>(76,887)</u>
Cash Flows From Investing Activities	
Interest on investments	<u>18</u>
Net Decrease in Cash and Cash Equivalents	(51,043)
Cash and Cash Equivalents - Beginning of Year	<u>260,493</u>
Cash and Cash Equivalents - End of Year	<u>\$ 209,450</u>
Reconciliation of Loss From Operations to Net Cash Used in Operating Activities	
Loss from operations	\$ (4,015,789)
Adjustments to Reconcile Loss From Operations to Net Cash Used in Operating Activities	
Commodities used.....	321,346
Depreciation	266,930
Changes in Assets and Liabilities	
Increase in inventories	(9,912)
Decrease in accounts payable	(26,759)
Decrease in salaries and benefits payable	<u>(58,955)</u>
Net Cash Used in Operating Activities	<u>\$ (3,523,139)</u>

Noncash Investing, Capital and Financing Activities

During the year ended June 30, 2011, the District received \$278,336 of federal commodities.

The District purchased \$48,461 of equipment from the capital projects fund, resulting in total cash paid for equipment of \$76,887 for the year ended June 30, 2011.

Statement of Fiduciary Assets and Liabilities

At June 30, 2011

	Agency
Assets	
Cash and Pooled Investments	<u>\$ 167,732</u>
Liabilities	
Due to Other Governments.....	<u>\$ 167,732</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 pre-kindergarten through twelve. The District also either operates or sponsors various adult education programs. These courses include remedial education as well as 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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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.

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. Combining schedules are also provided for the capital projects fund accounts.

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 Debt Service Fund is utilized to account for tax and other revenue to be used for the payment of interest and principal on the District's long-term debt.

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

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 day care operations of the District have been terminated.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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, school uniforms and reading materials 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.

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.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications -- committed, assigned and then unassigned fund balances.

(1) Summary of Significant Accounting Policies

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.

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.

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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011; and reflects the tax asking contained in the budget certified to the County Board of Supervisors in May, 2010.

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, 2011, food and supplies inventory valued at \$80,082 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	\$ 5,000
Buildings and improvements	5,000
Improvements other than buildings	5,000
Intangibles.....	200,000
Furniture and Equipment	
School Nutrition Fund equipment.....	500
Day Care Fund equipment.....	1,000
Other furniture and equipment	5,000

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.....	2 - 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.

(1) Summary of Significant Accounting Policies

Deferred Revenue

Although certain revenue is measurable, it is not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. 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 year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. 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, 2011. 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, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts which can be used only for specified purposes determined pursuant to constraints formally imposed by the Board of Education through resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same action it employed to commit those amounts.

Assigned - Amounts the Board of Education intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

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 are imposed by law through constitutional provisions or enabling legislation.

(1) Summary of Significant Accounting Policies

Net assets restricted through enabling legislation as of June 30, 2011 consist of categorical funding \$1,541,917, management levy purposes \$981,162, physical plant and equipment \$548,187 and student activities \$1,093,780.

Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, expenditures in the instruction functional area exceeded the amount budgeted.

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 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, 2011, the District had investments in the Iowa Schools Joint Investment Trust Diversified Portfolio of \$31,225,048. 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.

Interest Rate Risk

The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District. The District did not own any investments as of June 30, 2011 other than deposits held in the Iowa Schools Joint Investment Trust.

Notes to the Financial Statements

(2) Cash and Investments

Credit Risk

The Board authorizes the District to invest funds in excess of current needs in interest-bearing savings, money market and checking accounts in the District's authorized depositories; the Iowa Schools Joint Investment Trust Program; obligations of the United States governments, its agencies and instrumentalities; and certificates of deposit and other evidences of deposit at federally insured Iowa depository institutions. The Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investor Services. The District's policy does not further limit the District's investments in relation to credit risk.

Concentration of Credit Risk

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

The investment in the Iowa Schools Joint Investment Trust is not subject to concentration of credit risk.

Custodial Credit Risk

For deposits, custodial credit risk is the risk that in an event of a bank failure, the government's deposits may not be returned to it. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District's deposits in banks at June 30, 2011 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.

(3) Interfund Transfers

The detail of the interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer From	Amount
Debt Service	Capital Projects	\$ 53,627,004
Student Activity Fund	General	59,455
Total		<u>\$ 53,686,459</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, 2011 was as follows:

	Balance - Beginning of Year, as Restated (Note 13)	Increases	Decreases	Balance - End of Year
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 1,547,685	\$ 1,423,668	\$ 31,998	\$ 2,939,355
Construction in progress	<u>43,943,469</u>	<u>17,441,198</u>	<u>32,398,195</u>	<u>28,986,472</u>
Total Capital Assets Not Being Depreciated.....	<u>45,491,154</u>	<u>18,864,866</u>	<u>32,430,193</u>	<u>31,925,827</u>
Capital Assets Being Depreciated				
Buildings and improvements	127,152,297	30,431,865	2,049,687	155,534,475
Improvements other than buildings	7,731,375	137,282	53,464	7,815,193
Furniture and equipment	<u>11,696,042</u>	<u>872,938</u>	<u>13,652</u>	<u>12,555,328</u>
Total Capital Assets Being Depreciated.....	<u>146,579,714</u>	<u>31,442,085</u>	<u>2,116,803</u>	<u>175,904,996</u>
Less Accumulated Depreciation for				
Buildings and improvements	36,831,851	3,093,515	2,003,771	37,921,595
Improvements other than buildings	1,416,079	337,890	34,509	1,719,460
Furniture and equipment	<u>6,330,473</u>	<u>821,262</u>	<u>7,749</u>	<u>7,143,986</u>
Total Accumulated Depreciation	<u>44,578,403</u>	<u>4,252,667</u>	<u>2,046,029</u>	<u>46,785,041</u>
Net Total Capital Assets Being Depreciated.....	<u>102,001,311</u>	<u>27,189,418</u>	<u>70,774</u>	<u>129,119,955</u>
Net Governmental Activities				
Capital Assets.....	<u>\$ 147,492,465</u>	<u>\$ 46,054,284</u>	<u>\$ 32,500,967</u>	<u>\$ 161,045,782</u>
Business-Type Activities				
Furniture, equipment, vehicles	\$ 3,391,296	\$ 125,348	\$ —	\$ 3,516,644
Less accumulated depreciation	<u>1,868,949</u>	<u>266,930</u>	<u>—</u>	<u>2,135,879</u>
Net Business-Type Activities				
Capital Assets	<u>\$ 1,522,347</u>	<u>\$ (141,582)</u>	<u>\$ —</u>	<u>\$ 1,380,765</u>

Notes to the Financial Statements

(4) Capital Assets

The changes in capital assets used in the operation of governmental funds by function and activity as of June 30, 2011 are as follows:

Function and Activity	Balance - Beginning of Year, as Restated (Note 13)	Increases	Decreases	Balance - End of Year
Education.....	\$ 185,984,170	\$ 50,152,249	\$ 34,533,344	\$ 201,603,075
Transportation	241,625	—	—	241,625
Maintenance	3,142,687	154,702	—	3,297,389
Administration.....	2,702,386	—	13,652	2,688,734
	<u>\$ 192,070,868</u>	<u>\$ 50,306,951</u>	<u>\$ 34,546,996</u>	<u>\$ 207,830,823</u>

The capital assets used in the operation of governmental funds by function and activity as of June 30, 2011 are as follows:

Function and Activity	Construction in Progress	Land and Site Improve- ments	Buildings	Machinery and Equipment	Total
Education.....	\$ 28,986,472	\$ 10,230,732	\$ 154,613,390	\$ 7,772,481	\$ 201,603,075
Transportation	—	7,000	52,000	182,625	241,625
Maintenance	—	458,636	516,364	2,322,389	3,297,389
Administration.....	—	58,180	352,721	2,277,833	2,688,734
	<u>\$ 28,986,472</u>	<u>\$ 10,754,548</u>	<u>\$ 155,534,475</u>	<u>\$ 12,555,328</u>	<u>\$ 207,830,823</u>

Depreciation expense was charged as follows:

Governmental Activities

Instruction

Regular.....	\$ 52,101
Vocational	32,816
Other	74,368

Support Services

Student.....	295
Instructional staff	2,176
General administration	424
School administration.....	884
Business and central administration	205,299
Operation and maintenance of plant	361,526
Unallocated depreciation.....	3,522,778

Total Governmental Activities Depreciation Expense **\$ 4,252,667**

Business-Type Activities

School Nutrition.....	\$ 260,633
Day Care	6,297

Total Business-Type Activities Depreciation Expense **\$ 266,930**

Notes to the Financial Statements

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2011 is as follows:

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year	Due Within One Year
Revenue bonds	\$ 46,400,000	\$ 69,159,539	\$ 46,400,000	\$ 69,159,539	\$ 1,155,070
Revenue bonds discount.....	(106,333)	—	(106,333)	—	—
Revenue bonds premium	—	240,456	2,147	238,309	12,882
Compensated absences.....	257,049	296,341	257,049	296,341	296,341
Early retirement benefit	1,660,000	—	415,000	1,245,000	415,000
Net OPEB liability ...	624,200	682,800	—	1,307,000	—
Total	<u>\$ 48,834,916</u>	<u>\$ 70,379,136</u>	<u>\$ 46,967,863</u>	<u>\$ 72,246,189</u>	<u>\$ 1,879,293</u>

Compensated Absences

Compensated absences are generally liquidated by the General Fund. The District's compensated absences are generally liquidated within one year. District employees are allowed to carryover paid time off from prior years, but based on previous activity, employees do not carry over material amounts of paid time off.

Revenue Bonds Payable

Details of the District's June 30, 2011 school infrastructure (statewide) sales, services and use tax revenue and refunding bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of April 26, 2011 - Series A			Bond Issue April 26, 2011 - Series B			Total			
	Interest Rate	Principal	Interest	Interest Rate	Principal	Interest	Interest Net of Credit	Principal	Interest Net of Credit	Total
2012	4.00%	\$ —	\$ 1,689,513	5.85%	\$ —	\$ 652,110	\$ 50,162	\$ —	\$ 1,739,675	\$ 1,739,675
2013	4.00	1,350,000	2,455,550	5.85	—	958,203	(884,495)	1,350,000	2,529,258	3,879,258
2014	4.00	1,700,000	2,394,550	5.85	—	958,203	(884,495)	1,700,000	2,468,258	4,168,258
2015	4.00	1,700,000	2,326,550	5.85	—	958,203	(884,495)	1,700,000	2,400,258	4,100,258
2016	4.00	1,800,000	2,256,550	5.85	—	958,203	(884,495)	1,800,000	2,330,258	4,130,258
2017-2021	4.00	10,000,000	10,126,750	5.85	—	4,791,015	(4,422,475)	10,000,000	10,495,290	20,495,290
2022-2026	5.00	12,450,000	7,676,500	5.85	16,379,539	4,311,914	(3,980,228)	28,829,539	8,008,186	36,837,725
2027-2030	5.00% - 5.25	23,780,000	2,880,700	5.85	—	—	—	23,780,000	2,880,700	26,660,700
Total		<u>\$ 52,780,000</u>	<u>\$ 31,806,663</u>		<u>\$ 16,379,539</u>	<u>\$ 13,587,851</u>	<u>\$ (12,542,631)</u>	<u>\$ 69,159,539</u>	<u>\$ 32,851,883</u>	<u>\$ 102,011,422</u>

(5) Long-Term Liabilities

The District has pledged future school infrastructure (statewide) sales, services and use tax revenue to repay the \$52,780,000 of bonds, Series A issued in April, 2011. The bonds were issued for the purpose of financing a portion of the costs associated with site acquisition, construction, reconstruction, remodeling and refurbishing certain District facilities, refunding the District's outstanding school infrastructure (statewide) sales, services and use tax revenue bonds, series 2009 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 January 1, 2030. 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 \$84,586,663. For the current year, no principal or interest was paid on the 2011 Series A bonds. A principal payment of \$46,400,000 and interest payment of \$1,740,450 was paid and retired 2009 series bonds in the current year.

The District has also pledged future school infrastructure (statewide) sales, services and use tax revenue to repay the \$16,379,539 of qualified school construction bonds Series B (direct pay) issued in April, 2011. The bonds were issued for the purpose of financing a portion of the costs associated with site acquisition and construction of a new elementary school. The bonds are payable from proceeds of any school infrastructure (statewide) sales, services and use tax revenue received by the District and mature July 1, 2025. The bonds have an interest rate of 5.85% but the District is entitled to a credit from the federal government at a rate of 5.4% (Build America Bonds). The District must remit interest net of any credits received to the bondholder semi-annually. 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 net of credits remaining to be paid on the bonds is \$17,424,759. For the current year, no principal or interest was paid on the 2011 Series B bonds.

For the current year, total statewide sales and services tax revenue was \$8,746,420.

The resolution providing for the issuance of the school infrastructure (statewide), sales, services and use tax revenue and refunding bonds include the following provisions:

- a. A portion of the proceeds from the issuance of the bonds be used to pay off any remaining principal and interest due on the 2009 series bonds.
- b. All proceeds from the statewide sales, services and use tax shall be placed in a revenue account except for the reserve fund noted below.
- c. Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year. There were no required payments for the year ended June 30, 2011.
- d. Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.
- e. A reserve fund of 10% of the net proceeds must be established (for 2011 Series A only).

The District did comply with all of the revenue bond provisions during the year ended June 30, 2011.

Notes to the Financial Statements

(5) Long-Term Liabilities

The District did not exceed its legal debt margin at June 30, 2011, as follows:

Total Assessed Valuation	<u>\$ 4,076,631,323</u>
Debt limit, 5% of total assessed valuation	\$ 203,831,566
Amount of debt applicable to debt limit, total bonded debt.....	<u>69,159,539</u>
Excess of Debt Limit Over Bonded Debt Outstanding, Legal Debt Margin	<u>\$ 134,672,027</u>

(6) Pension and Retirement Benefits

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

Plan members are required to contribute 4.5% (2011), 4.3% (2010) and 4.1% (2009) of their annual covered salary and the District is required to contribute 6.95% (2011), 6.65% (2010) and 6.35% (2009) of annual covered salary for the years ended June 30, 2011, 2010 and 2009. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$4,461,095, \$4,110,440 and \$3,717,336, 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, 2011 was approximately \$10,500,000.

(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 \$5,132,642 for the year ended June 30, 2011, 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.

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, 2011, 86 employees had requested early retirement and the District's remaining obligation was \$1,245,000.

(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 1,569 active and 56 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, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution.....	\$ 902,000
Interest on net OPEB obligation	28,000
Adjustment to annual required contribution	<u>(24,200)</u>
Annual OPEB Cost	905,800
Contributions made	<u>(223,000)</u>
Increase in Net OPEB Obligation.....	682,800
Net OPEB Obligation - Beginning of Year	<u>624,200</u>
Net OPEB Obligation - End of Year.....	<u>\$ 1,307,000</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, 2011.

For the year ended 2011, the District contributed \$223,000 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, 2011 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	\$ 1,094,000	68.1%	\$ 349,000
June 30, 2010	1,098,200	74.9	624,200
June 30, 2011	905,800	24.6	1,307,000

Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date for the period of July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$7.325 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$7.325 million. The covered payroll (annual payroll of active employees covered by the plan) was \$60.240 million and the ratio of the UAAL to covered payroll was 12.2%. As of June 30, 2011, 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 the financial statements, presents 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, 2010 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the District funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced by 0.5% each year until reaching the 5% 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, 2010 and applying the termination factors used in IPERS Actuarial Report as of June 30, 2010.

Projected claim costs of the medical plan are \$683 per month for retirees age 60. The salary increase rate was assumed to be 3.5% 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, 2011 is comprised of the following programs:

At-risk formula supplementary weighting	\$ 50,381
Beginning administrator and induction	4,500
Beginning teacher mentoring and induction	10,429
Educator quality, basic salary	304,651
Educator quality, core curriculum	339,911
Educator quality, professional development	54,025
Gifted and talented program	220,008
Home school assistance program	33,419
Market factor pay	12,839
Nonpublic textbook services	35,338
Reading recovery	10,000
Returning dropout and dropout prevention program	383,621
Statewide voluntary four-year-old preschool program	77,989
Vocational aid	4,806
Total	<u>\$ 1,541,917</u>

Notes to the Financial Statements

(13) Prior Period Adjustment

During the current fiscal year, the District's management discovered \$208,161 of June 30, 2010 general education expenditures should have been allocated to the special education function. Due to the reallocation of expenditures, the District was eligible to recognize grant funding received in the prior year of \$208,161 which was previously reported as deferred revenue.

The District also elected to increase their capitalization policy for land; buildings and improvements; improvements other than buildings; and furniture and equipment from \$1,000 to \$5,000. The increase was applied retroactively to all assets acquired prior to July 1, 2010. The increase in the capitalization policy resulted in a decrease of \$16,507,725 in fixed assets, \$11,430,943 in accumulated depreciation resulting in a net decrease of \$5,076,782 in net assets.

Beginning buildings and improvements; improvements other than buildings; furniture and equipment; and related accumulated depreciation balances were restated as follows:

	Balance - June 30, 2010, as Previously Reported	Decrease for Change in Capitalization Policy	Balance - July 1, 2010, as Restated
Buildings and improvements	\$ 127,694,247	\$ (541,950)	\$ 127,152,297
Improvements other than buildings ..	8,016,824	(285,449)	7,731,375
Furniture and equipment	<u>27,376,368</u>	<u>(15,680,326)</u>	<u>11,696,042</u>
	<u>\$ 163,087,439</u>	<u>\$ (16,507,725)</u>	<u>\$ 146,579,714</u>
Buildings and improvements - accumulated depreciation	\$ 37,017,686	\$ (185,835)	\$ 36,831,851
Improvements other than buildings - accumulated depreciation	1,522,635	(106,556)	1,416,079
Furniture and equipment - accumulated depreciation	<u>17,469,025</u>	<u>(11,138,552)</u>	<u>6,330,473</u>
	<u>\$ 56,009,346</u>	<u>\$ (11,430,943)</u>	<u>\$ 44,578,403</u>

The effect of the restatements on the District's beginning fund balances/net assets were as follows:

	General Fund	Governmental Activities
Fund Balance/Net Assets - Beginning of Year, as previously reported.....	\$ 7,325,715	\$ 114,258,352
Reallocation of expenditures	208,161	208,161
Increase in capitalization scope.....	<u>—</u>	<u>(5,076,782)</u>
Fund Balance/Net Assets - Beginning of Year, as Restated	<u>\$ 7,533,876</u>	<u>\$ 109,389,731</u>

Notes to the Financial Statements

(14) 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 statewide sales, services and use tax. The building projects include Fred Becker Elementary School, Kittrell Elementary School and West Elementary School. At June 30, 2011, the remaining commitment on these contracts was approximately \$5,200,000.

(15) Subsequent Events

Subsequent to June 30, 2011, the Districted entered into contracts for the construction of Orange Elementary totaling approximately \$16.2 million.

Subsequent to June 30, 2011, the District sold the assets of the Day Care Fund and transferred the remaining proceeds to the General Fund.

Required Supplementary Information

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

Year Ended June 30, 2011

	Actual		Total	Original Budget	Final Budget	Over (Under) Budget
	Governmental Fund Types - Actual	Proprietary Fund Type - Actual				
Revenue						
Local sources	\$ 52,242,347	\$ 1,403,304	\$ 53,645,651	\$ 55,789,290	\$ 55,789,290	\$ (2,143,639)
Intermediate sources	—	—	—	500,000	500,000	(500,000)
State sources	64,173,910	45,428	64,219,338	70,624,291	70,624,291	(6,404,953)
Federal sources	<u>12,553,120</u>	<u>3,774,141</u>	<u>16,327,261</u>	<u>9,935,000</u>	<u>9,935,000</u>	<u>6,392,261</u>
Total Revenue	<u>128,969,377</u>	<u>5,222,873</u>	<u>134,192,250</u>	<u>136,848,581</u>	<u>136,848,581</u>	<u>(2,656,331)</u>
Expenditures/Expenses						
Instruction.....	78,207,942	—	78,207,942	78,100,000	78,100,000	107,942
Support services	31,588,537	—	31,588,537	33,590,000	33,590,000	(2,001,463)
Noninstructional programs	11,533	5,370,614	5,382,147	6,140,000	6,140,000	(757,853)
Other expenditures.....	<u>27,107,495</u>	<u>—</u>	<u>27,107,495</u>	<u>17,942,815</u>	<u>70,992,815</u>	<u>(43,885,320)</u>
Total Expenditures/ Expenses	<u>136,915,507</u>	<u>5,370,614</u>	<u>142,286,121</u>	<u>135,772,815</u>	<u>188,822,815</u>	<u>(46,536,694)</u>
Revenue Over (Under) Expenditures/Expenses	(7,946,130)	(147,741)	(8,093,871)	1,075,766	(51,974,234)	43,880,363
Other Financing Sources (Net).....	<u>22,999,995</u>	<u>—</u>	<u>22,999,995</u>	<u>1,750,000</u>	<u>1,750,000</u>	<u>21,249,995</u>
Revenue and Other Financing Sources Over (Under) Expendi- tures/Expenses and Other Financing Uses	15,053,865	(147,741)	14,906,124	2,825,766	(50,224,234)	<u>\$ 65,130,358</u>
Balance - Beginning of Year, as Restated (Note 13)	<u>11,022,182</u>	<u>1,784,651</u>	<u>12,806,833</u>	<u>11,615,797</u>	<u>11,615,797</u>	
Balance - End of Year .	<u>\$ 26,076,047</u>	<u>\$ 1,636,910</u>	<u>\$ 27,712,957</u>	<u>\$ 14,441,563</u>	<u>\$ (38,608,437)</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, the District adopted one budget amendment, increasing budgeted expenditures by \$53,050,000.

During the year ended June 30, 2011, expenditures 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
2011	7-1-10	—	7,325,000	7,325,000	0	60,240,000	12.2

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.

Combining Balance Sheet - Nonmajor Governmental Funds

At June 30, 2011

	<u>Special Revenue</u>		Total Nonmajor Governmental Funds
	Management Levy	Student Activity	
Assets			
Cash and pooled investments	\$ 966,241	\$ 1,102,294	\$ 2,068,535
Receivables, Net of Allowance for Uncollectible Amounts			
Property Taxes			
Current year delinquent	23,628	—	23,628
Succeeding year	1,999,992	—	1,999,992
Due from other governments	<u>162</u>	<u>—</u>	<u>162</u>
Total Assets	<u>\$ 2,990,023</u>	<u>\$ 1,102,294</u>	<u>\$ 4,092,317</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 8,869	\$ 7,357	\$ 16,226
Salaries and benefits payable	—	1,157	1,157
Deferred Revenue			
Succeeding year property taxes	<u>1,999,992</u>	<u>—</u>	<u>1,999,992</u>
Total Liabilities.....	<u>2,008,861</u>	<u>8,514</u>	<u>2,017,375</u>
Fund Balances			
Restricted for			
Management levy purposes	981,162	—	981,162
Student activities	<u>—</u>	<u>1,093,780</u>	<u>1,093,780</u>
Total Fund Balances	<u>981,162</u>	<u>1,093,780</u>	<u>2,074,942</u>
Total Liabilities and Fund Balances	<u>\$ 2,990,023</u>	<u>\$ 1,102,294</u>	<u>\$ 4,092,317</u>

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

Year Ended June 30, 2011

	Special Revenue		Total
	Management Levy	Student Activity	Nonmajor Governmental Funds
Revenue			
Local Sources			
Local taxes	\$ 1,991,149	\$ —	\$ 1,991,149
Other	168	1,660,737	1,660,905
State sources	1,581	—	1,581
Total Revenue	<u>1,992,898</u>	<u>1,660,737</u>	<u>3,653,635</u>
Expenditures			
Current			
Instruction			
Regular instruction	1,403,980	—	1,403,980
Special instruction	48,543	—	48,543
Other instruction	—	1,611,463	1,611,463
Total Instruction	<u>1,452,523</u>	<u>1,611,463</u>	<u>3,063,986</u>
Support Services			
Student services	19,000	—	19,000
Instructional staff services	33,522	—	33,522
General administration services	19,697	—	19,697
School administration services	263,657	—	263,657
Business and central administration services	20,529	1,492	22,021
Operation and maintenance of plant services	335,930	—	335,930
Transportation services	100,810	—	100,810
Total Support Services	<u>793,145</u>	<u>1,492</u>	<u>794,637</u>
Noninstructional Programs	<u>11,533</u>	<u>—</u>	<u>11,533</u>
Total Expenditures	<u>2,257,201</u>	<u>1,612,955</u>	<u>3,870,156</u>
Revenue Over (Under) Expenditures	(264,303)	47,782	(216,521)
Other Financing Sources			
Transfers in	<u>—</u>	<u>59,455</u>	<u>59,455</u>
Net Change in Fund Balances	(264,303)	107,237	(157,066)
Fund Balance - Beginning of Year	<u>1,245,465</u>	<u>986,543</u>	<u>2,232,008</u>
Fund Balance - End of Year	<u>\$ 981,162</u>	<u>\$ 1,093,780</u>	<u>\$ 2,074,942</u>

Combining Schedule of Net Assets - Nonmajor Proprietary Funds

At June 30, 2011

	School Nutrition	Day Care	Total Nonmajor Enterprise Funds
Assets			
Current Assets			
Cash and cash equivalents	\$ 76,041	\$ 133,409	\$ 209,450
Receivables, Net of Allowance for Uncollectible Amounts			
Intergovernmental.....	16,906	—	16,906
Inventories	80,082	—	80,082
Total Current Assets	<u>173,029</u>	<u>133,409</u>	<u>306,438</u>
Noncurrent Assets			
Capital assets, net of accumulated depreciation	<u>1,251,041</u>	<u>129,724</u>	<u>1,380,765</u>
Total Assets	<u>\$ 1,424,070</u>	<u>\$ 263,133</u>	<u>\$ 1,687,203</u>
Liabilities and Net Assets			
Current Liabilities			
Accounts payable	\$ 9,385	\$ —	\$ 9,385
Salaries and benefits payable	24,002	—	24,002
Unearned revenue.....	16,906	—	16,906
Total Current Liabilities	<u>50,293</u>	<u>—</u>	<u>50,293</u>
Net Assets			
Invested in capital assets	1,251,041	129,724	1,380,765
Unrestricted	122,736	133,409	256,145
Total Net Assets	<u>1,373,777</u>	<u>263,133</u>	<u>1,636,910</u>
Total Liabilities and Net Assets	<u>\$ 1,424,070</u>	<u>\$ 263,133</u>	<u>\$ 1,687,203</u>

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

Year Ended June 30, 2011

	School Nutrition	Day Care	Total Nonmajor Enterprise Funds
Revenue			
Local Sources			
Charges for service	\$ 1,299,257	\$ —	\$ 1,299,257
Other receipts	55,568	—	55,568
Total Operating Revenue	<u>1,354,825</u>	<u>—</u>	<u>1,354,825</u>
Operating Expenses			
Noninstructional Programs			
Salaries.....	1,629,527	—	1,629,527
Benefits.....	703,859	—	703,859
Purchased services	90,738	908	91,646
Supplies.....	2,668,032	1,221	2,669,253
Other.....	9,399	—	9,399
Depreciation	260,633	6,297	266,930
Total Operating Expenses	<u>5,362,188</u>	<u>8,426</u>	<u>5,370,614</u>
Loss From Operations	<u>(4,007,363)</u>	<u>(8,426)</u>	<u>(4,015,789)</u>
Nonoperating Revenue			
State sources.....	45,124	304	45,428
Federal sources.....	3,774,000	141	3,774,141
Interest on investments	18	—	18
Capital contributions	48,461	—	48,461
Total Nonoperating Revenue.....	<u>3,867,603</u>	<u>445</u>	<u>3,868,048</u>
Decrease in Net Assets	(139,760)	(7,981)	(147,741)
Net Assets - Beginning of Year	<u>1,513,537</u>	<u>271,114</u>	<u>1,784,651</u>
Net Assets - End of Year.....	<u>\$ 1,373,777</u>	<u>\$ 263,133</u>	<u>\$ 1,636,910</u>

Combining Schedule of Cash Flows - Nonmajor Proprietary Funds

Year Ended June 30, 2011

	School Nutrition	Day Care	Total Nonmajor Enterprise Funds
Cash Flows Used in Operating Activities			
Cash received from sale of lunches and breakfasts....	\$ 1,299,257	\$ —	\$ 1,299,257
Cash received from other	55,568	—	55,568
Cash paid to employees for services.....	(2,348,288)	(44,053)	(2,392,341)
Cash paid to suppliers for goods and services.....	<u>(2,483,439)</u>	<u>(2,184)</u>	<u>(2,485,623)</u>
Net Cash Used in Operating Activities	<u>(3,476,902)</u>	<u>(46,237)</u>	<u>(3,523,139)</u>
Cash Flows Provided by Noncapital Financing Activities			
State grants received.....	45,124	304	45,428
Federal grants received.....	<u>3,503,396</u>	<u>141</u>	<u>3,503,537</u>
Net Cash Provided by Noncapital Financing Activities.....	<u>3,548,520</u>	<u>445</u>	<u>3,548,965</u>
Cash Flows Used in Capital and Related Financing Activities			
Acquisition of capital assets	<u>(76,887)</u>	<u>—</u>	<u>(76,887)</u>
Cash Flows From Investing Activities			
Interest on investments	<u>18</u>	<u>—</u>	<u>18</u>
Net Decrease in Cash and Cash Equivalents	(5,251)	(45,792)	(51,043)
Cash and Cash Equivalents - Beginning of Year	<u>81,292</u>	<u>179,201</u>	<u>260,493</u>
Cash and Cash Equivalents - End of Year	<u>\$ 76,041</u>	<u>\$ 133,409</u>	<u>\$ 209,450</u>
Reconciliation of Loss From Operations to Net Cash Used in Operating Activities			
Loss from operations.....	\$ (4,007,363)	\$ (8,426)	\$ (4,015,789)
Adjustments to Reconcile Loss From Operations to Net Cash Used in Operating Activities			
Commodities used.....	321,346	—	321,346
Depreciation	260,633	6,297	266,930
Changes in Assets and Liabilities			
Increase in inventories	(9,912)	—	(9,912)
Decrease in accounts payable	(26,704)	(55)	(26,759)
Decrease in salaries and benefits payable	<u>(14,902)</u>	<u>(44,053)</u>	<u>(58,955)</u>
Net Cash Used in Operating Activities	<u>\$ (3,476,902)</u>	<u>\$ (46,237)</u>	<u>\$ (3,523,139)</u>

Capital Projects Accounts - Description of Accounts ---

The Capital projects fund is used to account for specific resources that are restricted to expenditures for capital outlays. The fund has two sets of accounts, as follows:

Statewide Sales, Services and Use Tax	This set of accounts is used to account for all resources used in the acquisition and construction of capital facilities and the payment of fees related to the issuance of bonds.
Physical Plant and Equipment Levy	This set of accounts is used to account for resources accumulated and payments made for the purchase and improvement of grounds; purchase of buildings; major repairs, remodeling, reconstructing, improving or expanding the schools or buildings; and for equipment purchases.

Combining Balance Sheet - Capital Projects Accounts

At June 30, 2011

	<u>Capital Projects</u>		Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	
Assets			
Cash and pooled investments	\$ 7,082,215	\$ 826,597	\$ 7,908,812
Receivables, Net of Allowance for Uncollectible Amounts			
Property Taxes			
Current year delinquent	—	29,598	29,598
Succeeding year	—	2,623,174	2,623,174
Due from other governments	<u>1,442,461</u>	<u>15,194</u>	<u>1,457,655</u>
Total Assets	<u>\$ 8,524,676</u>	<u>\$ 3,494,563</u>	<u>\$ 12,019,239</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 1,411,362	\$ 313,506	\$ 1,724,868
Deferred Revenue			
Succeeding year property taxes	—	2,623,174	2,623,174
Other	—	9,696	9,696
Total Liabilities	<u>1,411,362</u>	<u>2,946,376</u>	<u>4,357,738</u>
Fund Balances			
Restricted for			
Physical plant and equipment	—	548,187	548,187
Assigned to			
School infrastructure	<u>7,113,314</u>	—	<u>7,113,314</u>
Total Fund Balances	<u>7,113,314</u>	<u>548,187</u>	<u>7,661,501</u>
Total Liabilities and Fund Balances	<u>\$ 8,524,676</u>	<u>\$ 3,494,563</u>	<u>\$ 12,019,239</u>

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

Year Ended June 30, 2011

	Capital Projects		Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	
Revenue			
Local Sources			
Local taxes	\$ 8,746,420	\$ 2,516,261	\$ 11,262,681
Other.....	861	169,143	170,004
State sources.....	—	1,928	1,928
Federal sources.....	—	244,464	244,464
Total Revenue	8,747,281	2,931,796	11,679,077
Expenditures			
Current			
Support Services			
General administration services	—	8,271	8,271
Business and central administration services.....	30,317	—	30,317
Operation and maintenance of plant services.....	2,600	421,274	423,874
Transportation services	—	350,000	350,000
Total Support Services	32,917	779,545	812,462
Other Expenditures			
Long-Term Debt			
Interest and fiscal charges.....	1,274,851	—	1,274,851
Facilities Acquisition and Construction	17,196,155	1,763,397	18,959,552
Total Expenditures	18,503,923	2,542,942	21,046,865
Revenue Over (Under) Expenditures	(9,756,642)	388,854	(9,367,788)
Other Financing Sources (Uses)			
Revenue bonds issued.....	69,159,539	—	69,159,539
Premium on sale of revenue bonds.....	240,456	—	240,456
Transfers out	(53,627,004)	—	(53,627,004)
Total Other Financing Sources (Uses)	15,772,991	—	15,772,991
Net Change in Fund Balances	6,016,349	388,854	6,405,203
Fund Balance - Beginning of Year.....	1,096,965	159,333	1,256,298
Fund Balance - End of Year	\$ 7,113,314	\$ 548,187	\$ 7,661,501

Schedule of Changes in Special Revenue Fund, Individual Student Activity Accounts

Year Ended June 30, 2011

Account	Balance - Beginning of Year	Revenue	Expenditures	Balance - End of Year
High Schools				
East.....	\$ 159,417	\$ 324,281	\$ 295,403	\$ 188,295
West.....	185,134	803,707	760,542	228,299
Expo.....	30,168	59,882	65,597	24,453
Middle Schools				
Central	83,511	28,627	29,655	82,483
Hoover	70,185	53,985	55,966	68,204
Carver	22,934	19,960	18,548	24,346
Bunger	36,391	40,094	31,353	45,132
Elementary Schools				
Cunningham.....	17,962	33,101	28,823	22,240
Edison	37,176	33,007	36,187	33,996
Elk Run Pre-K	17	739	50	706
Irving	22,495	8,656	8,406	22,745
Kingsley	50,824	50,765	49,504	52,085
Kittrell	37,858	14,395	12,151	40,102
Lincoln.....	17,974	7,502	7,346	18,130
Lowell.....	25,329	30,128	28,930	26,527
Orange	33,380	35,894	40,838	28,436
Highland.....	59,790	45,373	32,465	72,698
Lou Henry	49,584	46,211	38,709	57,086
Poyner.....	33,912	43,044	32,312	44,644
Other.....	<u>12,502</u>	<u>40,841</u>	<u>40,170</u>	<u>13,173</u>
Total	<u>\$ 986,543</u>	<u>\$ 1,720,192</u>	<u>\$ 1,612,955</u>	<u>\$ 1,093,780</u>

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

Year Ended June 30, 2011

	Balance - Beginning of Year	Additions	Deductions	Balance - End of Year
Assets				
Cash.....	<u>\$ 91,080</u>	<u>\$ 167,732</u>	<u>\$ 91,080</u>	<u>\$ 167,732</u>
Liabilities				
Due to Other Governments.....	<u>\$ 91,080</u>	<u>\$ 167,732</u>	<u>\$ 91,080</u>	<u>\$ 167,732</u>

**Schedule of Revenue By Source, Expenditures By Function and Other
Financing Sources and Uses - All Governmental Fund Types
(Modified Accrual Basis)**

For the Last Ten Years

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Revenue										
Local Sources										
Local option.....	\$ 47,907,941	\$ 49,786,925	\$ 48,754,219	\$ 46,212,046	\$ 43,826,641	\$ 42,087,405	\$ 40,599,831	\$ 38,456,247	\$ 37,037,974	\$ 34,996,941
Tuition	724,552	647,364	—	—	—	—	—	—	—	—
Other	3,609,854	3,826,358	3,997,924	5,363,665	5,803,902	4,545,891	3,374,140	2,876,064	3,832,274	4,121,513
Intermediate sources.....	—	—	—	10,330	2,215	2,725	131,022	138,278	128,436	—
State sources.....	64,173,910	54,520,646	61,072,325	60,639,195	55,888,686	52,891,722	49,774,462	48,722,481	48,218,332	47,100,673
Federal sources.....	<u>12,553,120</u>	<u>15,949,372</u>	<u>8,158,825</u>	<u>5,910,793</u>	<u>6,968,832</u>	<u>7,133,501</u>	<u>7,724,946</u>	<u>7,048,560</u>	<u>7,982,317</u>	<u>6,486,316</u>
Total.....	<u>\$ 128,969,377</u>	<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>	<u>\$ 97,241,630</u>	<u>\$ 97,199,333</u>	<u>\$ 92,705,443</u>
Expenditures										
Instruction										
Regular instruction	\$ 54,334,602	\$ 53,410,072	\$ 49,745,136	\$ 47,238,480	\$ 39,294,245	\$ 36,854,924	\$ 36,885,149	\$ 36,547,236	\$ 35,271,153	\$ 35,242,758
Special instruction.....	21,298,386	22,045,710	19,210,024	17,777,102	17,764,190	23,909,417	20,432,358	18,270,906	18,307,605	16,833,880
Vocational instruction.....	161,738	197,814	185,276	225,193	1,238,916	1,441,783	1,225,442	1,281,012	1,337,424	1,302,300
Other instruction.....	2,413,216	2,478,531	2,672,282	2,725,126	7,171,142	2,610,481	3,065,679	2,531,422	3,149,408	2,735,824
Support Services										
Student services.....	2,853,555	2,559,696	3,133,821	2,487,719	2,828,831	2,995,164	2,950,960	2,932,722	2,370,912	2,710,518
Instructional staff services.....	3,564,947	4,373,003	3,390,257	3,173,912	2,776,296	1,744,630	2,650,565	2,175,810	2,416,102	2,281,345
General administration services.....	1,087,004	1,161,982	1,072,601	1,161,352	803,132	1,067,712	910,675	972,748	987,520	866,761
School administration services.....	5,879,252	5,758,327	5,471,176	5,720,145	5,915,315	5,656,379	4,851,254	4,728,914	4,513,620	4,334,233
Business and central administration services	4,683,782	3,909,258	5,325,264	2,766,553	2,663,198	3,308,954	2,801,451	2,303,284	2,481,013	1,972,882
Operation and maintenance of plant services	9,638,972	9,850,642	9,919,474	9,286,639	9,769,436	8,244,959	9,447,732	10,269,848	9,429,858	8,073,211
Transportation services.....	3,881,025	3,191,138	2,182,716	2,994,845	3,333,897	3,234,530	2,742,655	2,634,361	2,380,679	2,221,298
Noninstructional programs.....	11,533	17,099	14,950	27,082	30,907	5,264	99,458	169,691	203,213	545,014
Other Expenditures										
Facilities acquisition	18,959,552	17,750,265	38,925,059	14,066,142	22,003,212	10,164,017	13,136,293	11,132,215	8,252,288	14,086,458
Long-Term Debt										
Principal	—	—	35,000,000	—	—	—	—	—	10,150,000	—
Interest and other charges	3,015,301	1,740,400	1,663,100	1,663,891	1,662,500	—	—	—	507,800	507,500
AEA flowthrough.....	<u>5,132,642</u>	<u>4,966,096</u>	<u>4,221,658</u>	<u>4,047,085</u>	<u>3,790,584</u>	<u>3,558,701</u>	<u>3,388,142</u>	<u>3,360,178</u>	<u>3,521,789</u>	<u>3,491,973</u>
Total.....	<u>\$ 136,915,507</u>	<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>	<u>\$ 99,310,347</u>	<u>\$ 105,280,384</u>	<u>\$ 97,205,955</u>
Other Financing Sources (Uses)										
Revenue bonds issued.....	\$ 69,159,539	\$ —	\$ 46,400,000	\$ —	\$ —	\$ 35,000,000	\$ —	\$ —	\$ —	\$ —
Premium (discount) on sale of revenue bonds	240,456	—	(174,000)	—	—	608,150	—	—	—	—
Revenue bonds repaid	(46,400,000)	—	—	—	—	—	—	—	—	—
Transfers (net).....	—	(60,000)	(60,000)	(115,000)	(142,717)	(216,902)	(257,971)	(297,005)	(60,000)*	(90,883)*
Proceeds from sale of capital assets.....	—	—	1,150	7,506	15,073	—	7,919	—	29,761*	18,612*
Total.....	<u>\$ 22,999,995</u>	<u>\$ (60,000)</u>	<u>\$ 46,167,150</u>	<u>\$ (107,494)</u>	<u>\$ (127,644)</u>	<u>\$ 35,391,248</u>	<u>\$ (250,052)</u>	<u>\$ (297,005)</u>	<u>\$ (30,239)*</u>	<u>\$ (72,271)*</u>

*Includes only General Fund, as this is the only available data.

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass- Through Number	Federal Expenditures
U.S. Department of Agriculture - Indirect			
Pass-Through From Iowa Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553	FY 11	\$ 665,674
National School Lunch Program.....	10.555	FY 11	2,705,979
National School Lunch Program - Food Donation (noncash).....	10.555	FY 11	278,336
Summer Food Service Program for Children	10.559	FY 11	<u>24,000</u>
Total Child Nutrition Cluster			<u>3,673,989</u>
Child and Adult Care Food Program.....	10.558	FY 11	<u>141</u>
Fresh Fruit and Vegetable Program.....	10.582	FY 11	<u>100,011</u>
Total U.S. Department of Agriculture.....			<u>3,774,141</u>
U.S. Department of Justice - Indirect			
Pass-Through From City of Waterloo, Iowa			
Public Safety Partnership and Community Policing Grants.....	16.710	FY 10	<u>34,638</u>
U.S. Department of Labor - Indirect			
Pass-Through From Iowa Department of Labor			
Employee Benefits Security Administration (EBSA)	17.151	FY 11	<u>3,866</u>
National Endowment for the Arts - Indirect			
Pass-Through From Iowa Department of Cultural Affairs			
Promotion of the Arts - Partnership Agreements	45.025	FY 11	<u>200</u>
U.S. Department of Education			
Direct			
Fund for the Improvement of Education.....	84.215	V215L042043	<u>552,315</u>
Indirect			
Pass-Through From Area Education Agency 267			
Parental Information and Resource Centers	84.310	FY 11	<u>1,126</u>
Educational Technology State Grants	84.318	FY 10	<u>2,313</u>
Total Pass-Through From Area Education Agency 267			<u>3,439</u>
Pass-Through From Cedar Valley's Promise			
Special Education - Grants to States.....	84.027	FY 11	<u>672,951</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

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			
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies	84.010	FY 11	\$ 4,075,888
ARRA - Title I Grants to Local Educational Agencies, Recovery Act.....	84.389	FY 11	<u>2,185,887</u>
Total Title I, Part A Cluster			<u>6,261,775</u>
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	FY 11	<u>34,349</u>
Career and Technical Education - Basic Grants to States	84.048	FY 11	<u>161,738</u>
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	FY 11	<u>59,473</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 11	<u>6,770</u>
Fund for the Improvement of Education	84.215	FY 11	<u>209,826*</u>
Special Education - State Personnel Development.....	84.323	FY 11	<u>10,229</u>
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	FY 11	<u>89,786</u>
Reading First State Grants	84.357	FY 11	<u>9,437</u>
English Language Acquisition Grants.....	84.365	FY 11	<u>89,248</u>
Improving Teacher Quality State Grants	84.367	FY 11	<u>823,314</u>
Grants for State Assessments and Related Activities	84.369	FY 11	<u>66,001</u>
State Fiscal Stabilization Fund Cluster			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	FY 11	619,055
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	FY 11	<u>552,167</u>
Total State Fiscal Stabilization Fund Cluster			<u>1,171,222</u>
Education Jobs Fund.....	84.410	FY 11	<u>1,082,886</u>
Total Pass-Through From Iowa Department of Education			<u>10,076,054</u>
Total U.S. Department of Education.....			<u>11,304,759</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass- Through Number	Federal Expenditures
U.S. Department of Health and Human Services - Indirect			
Pass-Through From Tri-County Child and Family Development Council, Inc.			
Head Start	93.600	FY 11	<u>\$ 612,929</u>
U.S. Department of Homeland Security - Indirect			
Pass-Through From Iowa Department of Homeland Security and Emergency Management			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FY 11	<u>9,873</u>
Total			<u>\$ 15,740,406</u>

*Total for CFDA Number 84.215 is \$762,141.

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.

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

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, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 13, 2012. 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting.

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. We consider the deficiency in internal control described in Part II of the accompanying schedule of findings and questioned costs as items 11-II-A to be a significant deficiency.

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, 2011 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.

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Mason City, Iowa
January 13, 2012

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Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. 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 11-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.

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. We did not identify any deficiencies in internal control over compliance that we consider to be a material weakness.

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
January 13, 2012

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

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

84.410

93.600

Clustered Programs

10.553

10.555

10.559

84.010

84.389

84.394

84.397

Name of Federal Program or Cluster

Education Jobs Fund

Head Start

School Breakfast Program

National School Lunch Program

Summer Food Service Program for Children

Title I Grants to Local Educational Agencies

ARRA - Title I Grants to Local Educational Agencies, Recovery Act

ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act

ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act

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

\$472,212

Auditee qualified as low-risk auditee? yes no

Schedule of Findings and Questioned Costs ---

Year Ended June 30, 2011

Part II: Findings Related to the Financial Statements

Internal Control Deficiencies

11-II-A School Lunch Procedures

Finding - In certain locations, the District did not employ adequate procedures to ensure that all students eating school lunch were properly charged and recorded.

Auditor's Recommendation - The District should monitor the lunch room processes and make the procedures uniform throughout the District.

District's Response - We have reviewed this situation and have initiated proper reforms to correct this problem.

Auditor's Conclusion - Response accepted.

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

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
CFDA Number 10.559: Summer Food Service Program for Children
Federal Award Year: 2011
U.S. Department of Agriculture
Passed Through the Iowa Department of Education

11-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 and for the year ended June 30, 2010, the District should have sampled 66 applications but only selected 63. 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 64 applications but only selected 62.

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

11-IV-A Certified Budget

Finding - Expenditures for the year ended June 30, 2011 exceeded the amended certified budget amount 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 expenditures were allowed to exceed the budget.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

District's Response - The District did not exceed its total spending authority for the year ended June 30, 2011 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.

11-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.

11-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.

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

11-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.

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

11-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, 2010. The variances resulted in an increase of certified students by one student.

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.

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

- 11-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.
- 11-IV-J Certified Annual Report** - The certified annual report was certified timely to the Iowa Department of Education.
- 11-IV-K Categorical Funding** - No instances were found of categorical funding being used to supplant rather than supplement other funds.
- 11-IV-L Statewide Sales, Services and Use 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, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$ 1,096,965
Revenue		
Sales tax revenue.....	\$ 8,746,420	
Other local revenue	861	
Sale of long-term debt	<u>69,399,995</u>	78,147,276
Expenditures/Transfers Out		
School infrastructure construction	\$ 17,196,155	
Other.....	1,307,768	
Transfer to Other Funds		
Debt service fund.....	<u>53,627,004</u>	<u>72,130,927</u>
Ending Balance		<u>\$ 7,113,314</u>

For the year ended June 30, 2011, the District did not reduce any levies as a result of the monies received under Chapter 423E or 423F of the Code of Iowa.

11-IV-M Interfund Loans

Finding - The District exceeded their interfund loan limit as set by the Board of Education.

Auditor's Recommendation - The District should monitor interfund loan activity and make timely repayments or consider taking Board action if additional interfund loans are required.

District's Response - We will monitor activity and take Board action as deemed necessary.

Auditor's Conclusion - Response accepted.