

CITY OF WATERLOO, IOWA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Year Ended June 30, 2012

Prepared by:
City of Waterloo Finance Department
Michelle C. Weidner, CPA, Chief Financial Officer
Joyce Schroeder, Financial Analyst
Ruth Haley, Financial Analyst
Emily Graham, Financial Analyst

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CITY OF WATERLOO, IOWA

CITY CLERK AND FINANCE DEPARTMENT

715 Mulberry St. • Waterloo, IA 50703 • (319) 291-4323 Fax (319) 291-4571
SUZY SCHARES • City Clerk MICHELLE WEIDNER, CPA • Chief Financial Officer

Mayor
BUCK
CLARK

December 17, 2012

COUNCIL
MEMBERS

Members of the City Council
and Citizens of the City of Waterloo, Iowa

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Ward 1

CAROLYN
COLE
Ward 2

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GETTY
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Ward 4

RON
WELPER
Ward 5

BOB
GREENWOOD
At-Large

STEVE
SCHMITT
At-Large

..... We are pleased to present the Comprehensive Annual Financial Report of the City of Waterloo, Iowa (the "City") for the fiscal year ended June 30, 2012 in accordance with the provisions of Chapter 11 of the Code of Iowa. This report represents the tenth consecutive year that the financial statements are presented in conformity with Governmental Accounting Standards Board Statement # 34 and the sixteenth consecutive time that it has been presented in accordance with generally accepted accounting principles. It has also been audited by an independent certified public accounting firm in accordance with generally accepted auditing standards and the single audit act requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Nonprofit Organizations". McGladrey LLP, Certified Public Accountants issued an unqualified ("clean") opinion on the financial statements for the year ended June 30, 2012. This report is published to provide the City Council, financial institutions and citizens detailed information concerning the financial condition of the City of Waterloo.

Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. Management assumes this responsibility based on a comprehensive framework of internal control established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. Management therefore believes the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial activity have been included.

Management is required to provide a narrative introduction, overview and analysis of the basic financial statements, known as Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A, found at pages 3 through 14 and should be read in conjunction with it. The information presented in the Statistical Section contains information that management believes that readers of the financial statements will find useful for understanding City operations.

WE'RE WORKING FOR YOU!

An Equal Opportunity/Affirmative Action Employer

THE CITY'S BACKGROUND AND SERVICES

Waterloo is the fifth largest city in the state of Iowa, with a 2010 census of 68,406. The City was incorporated in 1868 and is the county seat of Black Hawk County. Waterloo and the neighboring City of Cedar Falls are the primary urban centers in the region. The City operates under a Mayor – Council form of government, with the mayor as the elected chief executive. The City Council is comprised of seven members, five of whom are elected from separate wards and two are elected at-large. The Mayor is elected to two-year terms, and the City Council members are elected to four-year staggered terms.

The City of Waterloo provides a full range of municipal services to its citizens and is organized into 20 operating departments, the activities of which are directed by the Mayor. The public services provided by the employees of the City include police and fire protection, the construction and maintenance of highways, streets and other infrastructure through the planning, engineering, street maintenance and traffic safety departments and recreational and cultural and arts services provided through the library, leisure services, and cultural and arts departments. The City also provides solid waste collection and wastewater treatment through the waste management services department and operates a regional airport. Various other human services are provided through the community development, housing and human rights departments. In addition, the central garage provides vehicle maintenance services, while the human resources and management information systems departments, city attorney, city clerk and chief financial officer and their respective departments perform various administrative functions.

Funds, agencies, boards, commissions, trusts and authorities involved in the provision of municipal services must be included in the City's financial reporting as component units if the City is financially accountable for them. Although the Waterloo Water Works and the Waterloo Convention & Visitors Bureau, Inc. are operated as independent entities, they do meet the requirements to be considered component units of the City, and therefore, transactions of these entities are required to be included in this report. The Waterloo Community School District and the Metropolitan Transit Authority do not meet the established criteria for component entities of the City and are therefore not included in this report.

MAJOR INITIATIVES AND PROJECTS

The City has undertaken a number of major improvement initiatives. Brief descriptions of these major projects are described below.

➤ Cedar Valley Riverfront Renaissance

The construction of portions of a major project identified as the Cedar Valley Riverfront Renaissance Plan was completed in June 2012. This project will draw the community together around the Cedar River, one of the area's most valuable natural resources, re-establish a strong center for downtown, help recruit significant new business, expand tourism and improve the use of existing facilities. Projects completed as part of this initiative include improvements to the Cedar River Dam, which has raised river levels to permit boating again, the construction of a riverfront amphitheater and plaza, and the construction of recreational trails along both sides of the river through downtown. The Center for the Arts Youth Pavilion, the Veterans addition to the Grout Museum and the construction of the East Side Ministerial Alliance Community Center were all leveraged by this project.

The Riverfront Renaissance project was funded primarily using distributions from the Black Hawk County Solid Waste Commission in addition to \$7.3 million in funds received from the state-sponsored Vision Iowa program. Several additional grants have been secured for portions of the project. As a part of that award, the City also participated in funding the construction of the East Side Ministerial Alliance Community Center. Black Hawk County and the cities of Cedar Falls, Evansdale and Waterloo presented a combined application to the Vision Iowa Program. A total award of \$9.5 million was received, which has resulted in a total investment of more than \$35 million in these communities. All portions of the project are now complete and open. The RiverWalk Loop provides a unique recreational trail experience along the Cedar River throughout downtown Waterloo, while also connecting directly to the more than 110 miles of recreational trails in the Cedar Valley area, including the American Discovery Trail. The dam was inflated during the summer of 2012 and was successful in raising the river level for boating. Additional docks have been installed to allow boaters to dock and visit downtown entertainment venues.

- **RiverLoop Expo Grounds and Public Market**
Construction of the RiverLoop Expo grounds and the renovation of the Public Market building near the Five Sullivan Brothers Convention Center are also complete. The City acquired a number of properties in the downtown area to create exhibition grounds that will link downtown destinations, in addition to eliminating blight in the heart of downtown. Current plans define the grounds as a flexible community gathering space and outdoor exhibit space for conventions and trade shows. The Public Market is open and provides a unique area to support local, fresh food products and regional food markets.
- **Cedar Valley SportsPlex**
Construction began on the Cedar Valley SportsPlex, which will be a 125,000 square foot recreational facility, including such things as an area for indoor soccer fields, gyms, leisure pool, fitness facility, running track and multi-purpose activity spaces with an anticipated construction cost of \$26 million. The facility is being built on a 1.5 block area downtown. Several vacant and flood-damaged buildings were acquired and demolished to redevelop this site. Construction is being completed using private donations and gaming grants.
- **Former Rath Packing and John Deere Brownfields Pilot Area**
The City has secured approximately \$13.5 million in funding over the past decade to be used to revitalize the former Rath Packing and John Deere Brownfields area, one of the oldest areas in the City. During the year ended June 20, 2011, the City continued the demolition of two buildings that were part of the former Rath Packing complex in preparation for a business expansion by Crystal Distribution that is now underway.

The city has been working with three major social service agencies to create a Human Services Campus at the former Rath Packing site. Operation Threshold and the Department of Corrections have opened new buildings on the site. Building construction totaling \$11 million is complete with an additional \$5.5 million planned. This project will centrally locate many services, providing easier access for citizens, in addition to helping to revitalize one of the oldest neighborhoods in the area. The new construction activity in this area has also spurred more than \$800,000 in private investment in the general neighborhood, resulting in new commercial and industrial businesses locating in infill lots.

➤ Significant Brownfields Redevelopment

The City has been awarded several grants to redevelop the former Construction Machinery Company site (CMC). The City utilized those funds to demolish unsafe and fire-damaged buildings, remove underground rail cars previously used for environmental dumping, and acquire one 25,000 square foot building for redevelopment. The site is enrolled in the Iowa Department of Natural Resources Land Recycling Program.

Construction is underway on a new Public Works building on this site. In addition to redeveloping a Brownfields site, the facility will consolidate many public works functions and provide more efficient and effective operations for the City. The City was awarded \$5 million in state I-Jobs funding and \$1 million in funds from the Black Hawk Gaming Association for this \$8.7 million project.

The City also completed the demolition of all buildings (including buildings covering more than 10 acres) on the former Chamberlain Manufacturing complex during the year ended June 30, 2011. Demolition of the concrete slab foundations is expected to be completed during 2013. Chamberlain, the company that formerly operated Chamberlain Manufacturing, is working with the EPA to address potential pollution remediation needs at the site as well.

➤ Street Improvements

Waterloo continues to upgrade its street system with a substantial program of reconstruction, overlays and long-term repairs funded with approximately \$9 million in annual local option sales tax collections. The one-cent local option tax was renewed in November 2009 by the taxpayers for another five years, continuing to be required to be used for street repairs and improvements. Other major construction initiatives that are primarily funded with grants: the initial paving and construction of Shaulis Road, a \$6 million project, the reconstruction of Highway 63 through the northern part of the city and the reconstruction of East Donald Street, which will improve access to Logan Plaza.

➤ Recreational Facilities

The City is also continuing to develop its extensive system of bike trails, which are being connected to countywide and regional trail networks, creating a system of more than 110 miles of trails. A new trail is being developed along the newly constructed Shaulis Road connection. A new recreational area for all-terrain vehicle trails is being developed in the Riverview neighborhood. Many improvements have been made to Riverfront Municipal Stadium, the city's baseball facility over the past several years.

➤ Storm Water Pump Stations

As a result of the severe flooding that occurred in 2008, the City pursued and was awarded \$17 million in funding to construct eight storm water pump stations. Design is currently underway. The pump stations will allow the City to weather future flooding with less impact on both private and public property.

ECONOMIC OUTLOOK

The outlook of the economy of Waterloo and the Cedar Valley area remains positive with continued commercial and industrial activity. The regional economic development corporation, the Greater Cedar Valley Alliance, continues to work to spur development in Waterloo as well as the entire metropolitan area. Construction in Waterloo continued at a pace greater than any year in the previous decade. Building permit valuation increased 21% to \$124.8 million compared to \$103.2 million earned during the fiscal year ended June 30, 2011. Residential real estate values have continued to trend upward. The median sales price for homes in the Waterloo-Cedar Falls area has increased by 30% since 2002 (an annual average growth rate of 2.98%). Home values appear to be stabilizing, as the median remained at the same level at June 30, 2012 as June 30, 2011. Waterloo is a regional retail center for Black Hawk and surrounding counties. Retail sales have also increased steadily by an annual average rate of approximately 5.75% in Waterloo during the ten years ending June 30, 2011 (the most recent period for which statistics are available). Retail sales in 2001 totaled \$751 million and increased to \$1.18 billion for the fiscal year ended June 30, 2011, the most recent information available. The 2010 census reflected a slight population decline of 0.4% from 2000. Although Waterloo has not returned to the population levels of the seventies (prior to the major disruption in the farm economy), the official decrease in population for this decade is insignificant in relation to the total population.

Overall city tax base growth has been moderate, reflecting an average annual level of approximately 3.4% for the last five years. The City has developed a more diverse employment base since the mid-seventies, although John Deere and Company continues to play a major role in the local economy. Deere remains the city's largest employer and one of the larger taxpayers, currently accounting for about 8.2% of total county employment but less than 1% of total taxable property values. Deere has invested more than \$140 million in its downtown Westfield Avenue site over the past several years, and has announced additional redevelopment plans for the foundry and drivetrain operations at a planned cost of \$90 million, reflecting the company's continued commitment to the area. Deere's staff levels in Waterloo have grown by 19% over the past several years. The Company has experienced several record-setting performance years recently. The city's average unemployment level of 5.2% (at June 30, 2012) remains slightly above the state level of 5.1%, although it is well below the national level for June 2012 of 7.7%. The City's rate has decreased to 4.6% as of October 30, 2012.

The Isle Casino Hotel at Waterloo continues to provide a strong revenue source for the City since its grand opening June 30, 2007. The Isle is a \$98 million enterprise that employs nearly 600 Iowans and generates more than \$1.3 million in annual City property taxes. The City receives a host city fee of 0.5% of weekly adjusted gross receipts in addition to an annual development fee of 1% of weekly adjusted gross receipts.

The outlook remains positive for the continuation of these upward trends based on the continuing redevelopment occurring with the Riverfront Renaissance projects, John Deere's investment in the community, and other construction. The City has continued to see development occur in its Tax Increment Financing Districts. Major commercial expansions and new construction is occurring in the southern sector of the City, where the City has acquired 52 acres for development. The Crossroads area continues to see new retail development. A campground south of Crossroads near the Lost Island Waterpark is under development, including a 20-acre lake attraction. Working with private developers, the City has seen the recent construction of several new industrial, commercial, and office buildings in the Martin Road area. New roads have been built in the MidPort Industrial Park, resulting in the construction of a warehouse and creating

new development lots. Construction has begun on 72 units of riverfront housing in Downtown. A new pharmacy is under construction in the Logan area. One of the City's two major medical complexes completed a \$46 million renovation and addition, and the other is planning an \$18 million addition. The City is also benefiting from the one-cent local option tax for school construction. Nearly all school buildings in the city have been replaced with new construction or renovated to better address students' learning needs. A new elementary school is under construction in south Waterloo. The City of Waterloo and the Waterloo Community Schools have been working in partnership for the development and redevelopment of former school buildings and sites to be used for infill residential development, helping the City to reinvigorate existing neighborhoods with new construction, adding new tax base to the community without the expense of additional infrastructure, and utilizing land for its highest and best use. The City demolished two dilapidated former school buildings during the current year. The sites are being redeveloped into residential neighborhoods. Several areas of the City are seeing new residential construction. This activity indicates continued business interest in Waterloo even with the slowdown being experienced in the national economy.

A new complex, the Cedar Valley TechWorks, is being developed as a combination bioproducts center and incubator marketplace to help define, expand and nurture the region's emerging bioeconomy. The TechWorks has received several grants to develop the site. The construction of a new extension to West Commercial Street has opened a new route to the Tech Works Campus and Downtown Waterloo. Storm water improvements were also made to aid in the development of the TechWorks complex. The National Ag-based Industrial Lubricant laboratory is open as TechWorks' first tenant. The John Deere Engine and Tractor Museum is under construction on the TechWorks campus and is expected to bring 200,000 visitors to downtown annually. In addition, a project has been announced to redevelop a former Deere factory building into a hotel and office complex.

The City of Waterloo acquired and demolished a former hotel building on the southern side of the Tech Works site to add more than four acres of new land near Downtown Waterloo for development purposes.

The long term commercial and industrial viability of the Waterloo/Cedar Falls area is anticipated to continue to improve with the anticipated completion in the next several years of two four-lane highway corridors passing through the City with the "Avenue of the Saints" running north to St. Paul from St. Louis, and US Highway 20 running from Chicago to Interstate 35 and programmed to continue west to Interstate 29 at Sioux City. In addition, the City has undertaken a project to study the reconstruction and redevelopment of Highway 63 through downtown Waterloo, which has resulted in the appropriation of \$11,500,000 to complete the design and initiate construction. The primary goals of this project are to correct the highway's current negative impact on adjacent low income and minority-populated communities, improve traffic operations and capacity and encourage private sector development along this corridor. Right-of-way acquisitions are well underway and construction is expected begin in the spring of 2013. The City used over \$6 million in federal road funds, allocated through the Metropolitan Planning Organization, for a major southern connection in Waterloo with the extension of Shaulis Road from Ansborough Avenue to Highway 21. This connection, which was recently completed, adds another vital route for travelers, with a direct connection to Ansborough Avenue, Lost Island Water Park and the Isle Casino Hotel Waterloo.

FINANCIAL MANAGEMENT INFORMATION

Internal Controls - City management is responsible for establishing and maintaining internal controls designed to ensure that the assets of the City are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal control is designed to provide reasonable, but not absolute assurance that those objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Controls - The City's management staff is responsible and is actively involved in the financial planning and management of the City for both short-term daily operations and long-range strategic planning. The objective of established budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council, as well as the budget control procedures mandated by the State of Iowa for the prevention of spending that would lead to negative fund balance.

Budgetary control is exercised at two levels in compliance with both the requirements of the Code of Iowa and the City Council's adopted policies. Management control policies adopted by the City Council require that departmental and activity budgets comply with line-item appropriations. Amendments exceeding de minimus guidelines require the specific approval of the City Council Finance Committee. The adopted policies also require most expenditures exceeding \$1,000 to be pre-authorized by the City Council Finance Committee, which reviews those items for budget availability and compliance with procurement procedures.

Long-term financial and capital improvement planning are crucial strategic functions of the City. The City's management staff, coordinated by the Planning Department, prepares and presents the five-year Capital Improvement Program (CIP) to the Mayor and City Council for their review and approval annually. The CIP outlines the City's planned schedule of capital project construction over the next five-year cycle. The CIP provides an analysis of the financial funding impact and capital debt impact of the planned construction project program.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Waterloo, Iowa for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011. This is the eighth year that the City received this award, which is a prestigious national award, recognizing conformance with the highest standards for the preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. The CAFR must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Management believes that the current report continues to meet the Certificate of Achievement program requirements and we are submitting it to GFOA to determine its eligibility for another certificate.


ACKNOWLEDGMENTS

This report could not have been completed without the dedicated service of the entire staff of the City Clerk and Finance departments in addition to the audit team from McGladrey LLP, Certified Public Accountants. We want to express our appreciation to everyone who was involved in the completion of the audit process and the preparation of this report including the staff of all City departments, and especially to Joyce Schroeder, Ruth Haley, Emily Graham and Brent Bohlen in the Finance Department, as well as the City Clerk's staff. Each of you has our appreciation and respect for your contributions to this report. We also want to thank the City Council for their participation in the planning and oversight processes of the City of Waterloo financial operations.

Sincerely,



Buck Clark,
Mayor



Michelle C. Weidner, CPA
Chief Financial Officer

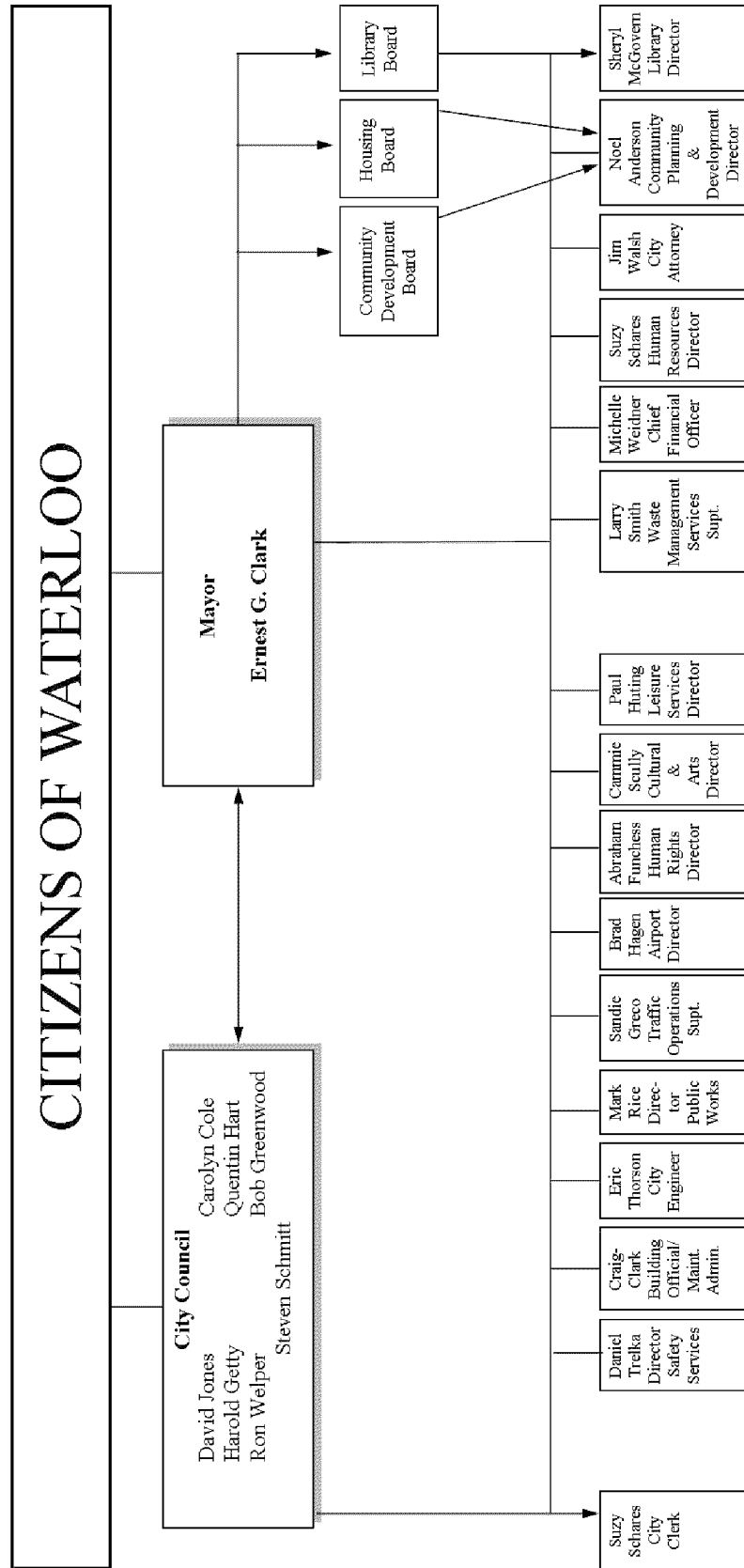
City of Waterloo, Iowa

Officials

June 30, 2012

Name	Title	Term Expires
Elected		
Ernest G. Clark	Mayor	January 2014
David Jones	Council Member - 1st Ward	January 2014
Carolyn Cole	Council Member - 2nd Ward	January 2016
Harold Getty	Council Member - 3rd Ward	January 2014
Quentin Hart	Council Member - 4th Ward	January 2016
Ron Welper	Council Member - 5th Ward	January 2014
Bob Greenwood	Council Member - At-Large	January 2014
Steven Schmitt	Council Member - At-Large	January 2016
Appointed		
Michelle Weidner, CPA	Chief Financial Officer	Indefinite
Suzy Schares, CMC	City Clerk	Indefinite
Eric Thorson, PE	City Engineer	Indefinite
James E. Walsh, Jr.	City Attorney	Indefinite
Daniel Trelka	Director of Safety Services	Indefinite

CITY OF WATERLOO, IOWA — ORGANIZATIONAL STRUCTURE



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Waterloo
Iowa

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Christopher P. Moine

President

Jeffrey R. Emer

Executive Director

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Waterloo, Iowa
Waterloo, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Waterloo, Iowa as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units, Waterloo Water Works and Waterloo Convention & Visitors Bureau, Inc., which collectively represent 100 percent of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other independent auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely upon the reports of the other independent auditors.

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 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Waterloo Convention & Visitors Bureau, Inc. were not audited in accordance with *Government Auditing Standards*. 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 and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Waterloo, Iowa as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2012 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 14, schedule of funding progress for other postemployment benefit information on page 68 and budgetary comparison information on pages 69 through 75 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Waterloo, Iowa's basic financial statements. The accompanying combining individual and nonmajor fund financial statements and other schedules and statements, listed in the table of contents as supplementary information, and the schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments and Nonprofit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Our audits were conducted for the purpose of forming opinions on the basic financial statements as a whole. The accompanying introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

McGladrey LLP

Davenport, Iowa
December 14, 2012

City of Waterloo, Iowa

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2012

As management of the City of Waterloo, we offer readers of the City of Waterloo's financial statements this narrative overview and analysis of the financial activities of the City of Waterloo for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found at pages iii-x of this report.

Financial Highlights

- The assets of the City of Waterloo exceeded its liabilities at the close of the most recent fiscal year by \$379,624,530 (net assets). Of this amount, \$24,353,830 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$14,783,128.
- As of the close of this current fiscal year, the City of Waterloo's governmental funds reported combined ending fund balances of \$55,967,779, an increase of \$1,358,205 in comparison with the prior year. Approximately 4.4 percent of this total amount, \$2,482,815, is available for spending at the government's discretion (unassigned fund balance), although some funds are legally limited for specified purposes.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$9,644,699, or 22.0 percent of total General Fund expenditures.
- The City of Waterloo's total long-term debt, decreased by \$69,280 or 0.07 percent during the current fiscal year.

Overview of the Financial Statements

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

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

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

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

City of Waterloo, Iowa

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2012

Both of the government-wide financial statements distinguish functions of the City of Waterloo that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Waterloo include public safety, public works, health and social services, culture and recreation, community and economic development and general government. In addition, the convention bureau provides marketing services for tourism operated as a separate discretely presented component unit of the City. The business-type activities of the City of Waterloo include the sanitary sewer system and the solid waste system. The water utility is operated as a separate discretely presented component unit of the City. For detailed information about the Waterloo Convention & Visitors Bureau, Inc. or the Waterloo Water Works, please see their separate audited financial statements.

The government-wide financial statements include only the City of Waterloo itself (known as the primary government) and its discretely presented component units, the Waterloo Water Works and Waterloo Convention and Visitors Bureau, Inc. The Waterloo Community School District and the Metropolitan Transit Authority provide services to the citizens of Waterloo but do not meet established criteria as component units of the City and thus are not included in this report.

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

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

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

The City of Waterloo maintains 21 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Trust and Agency Fund, Local Option Tax Fund, Grants Fund, Tax Increment Financing Fund and General Obligation Debt Service Fund, all of which are considered to be major funds. Data from the other 15 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary funds. The City of Waterloo maintains two proprietary funds, which are used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sanitary sewer fund and the sanitation fund. The sanitary sewer fund is considered to be a major fund of the City of Waterloo.

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Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Waterloo's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City has one type of fiduciary fund, an agency fund. There were no assets held in the fiduciary fund as of June 30, 2012.

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

Other information. The City's budgetary comparison schedule and the other postemployment benefit plan schedule of funding progress are presented as required supplementary information immediately following the notes to the financial statements. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Waterloo, assets exceeded liabilities by \$379,534,530 at the close of the fiscal year ended June 30, 2012.

By far the largest portion of the City of Waterloo's net assets (85 percent) reflects its investment in capital assets (e.g., land, buildings and improvements, infrastructure and vehicles and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Waterloo uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Waterloo's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Statement of Net Assets

A condensed version of the Statement of Net Assets as of June 30, 2012 and 2011 follows:

	City of Waterloo's Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current and other assets	\$ 118,781,203	\$ 114,398,834	\$ 28,927,424	\$ 28,421,237	\$ 147,708,627	\$ 142,820,071
Capital assets	305,724,912	294,578,307	86,499,786	84,670,772	392,224,698	379,249,079
Total assets	424,506,115	408,977,141	115,427,210	113,092,009	539,933,325	522,069,150
Liabilities						
Current liabilities	66,177,441	63,522,373	5,395,571	4,859,531	71,573,012	68,381,904
Long-term liabilities	66,262,671	64,447,459	22,473,112	24,398,385	88,735,783	88,845,844
Total liabilities	132,440,112	127,969,832	27,868,683	29,257,916	160,308,795	157,227,748
Net assets						
Invested in capital assets, net of related debt	250,819,314	243,084,776	71,243,134	67,576,579	322,062,448	310,661,355
Restricted	31,552,558	28,098,845	1,655,694	3,170,694	33,208,252	31,269,539
Unrestricted	9,694,131	9,823,688	14,659,699	13,086,820	24,353,830	22,910,508
Total net assets	\$ 292,066,003	\$ 281,007,309	\$ 87,558,527	\$ 83,834,093	\$ 379,624,530	\$ 364,841,402

City of Waterloo, Iowa

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\$33,208,252 of the City of Waterloo's net assets (8.7 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$24,263,830) may be used to meet the government's ongoing obligations to citizens and creditors.

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

The City's total net assets increased by \$14,783,128 during the current fiscal year. Governmental-type activities' net assets increased by \$11,058,694. This increase was largely related to the net effect of capital asset transactions. See page 26 for a reconciliation of this increase. The total business-type activities' net assets increased by \$3,724,434. This increase was due primarily to capital asset and related debt transactions.

Statement of Activities

A condensed version of the Statement of Activities as of June 30, 2012 and 2011 follows:

	City of Waterloo's Changes in Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 9,687,636	\$ 9,428,096	\$ 16,719,992	\$ 16,730,240	\$ 26,407,628	\$ 26,158,336
Operating grants and contributions	16,603,449	16,376,376	269,625	524,802	16,873,074	16,901,178
Capital grants and contributions	10,720,735	9,832,416	83,003	81,302	10,803,738	9,913,718
General revenues:						
Property taxes	42,822,680	41,028,851	-	-	42,822,680	41,028,851
Other taxes	14,844,322	14,566,088	-	-	14,844,322	14,566,088
Other	3,369,956	3,031,230	18,612	21,055	3,388,568	3,052,285
Transfers	(44,167)	70,231	44,167	(70,231)	-	-
Total revenues	98,004,611	94,333,288	17,135,399	17,287,168	115,140,010	111,620,456
Expenses:						
Public safety	30,037,249	29,629,282	-	-	30,037,249	29,629,282
Public works	23,297,561	23,276,707	-	-	23,297,561	23,276,707
Health and social services	278,589	257,618	-	-	278,589	257,618
Culture and recreation	10,515,120	10,080,005	-	-	10,515,120	10,080,005
Community and economic development	16,138,333	16,675,218	-	-	16,138,333	16,675,218
General government	4,219,355	4,860,959	-	-	4,219,355	4,860,959
Interest on long-term debt	2,459,710	2,639,047	-	-	2,459,710	2,639,047
Sanitary sewer	-	-	9,730,465	10,437,723	9,730,465	10,437,723
Sanitation	-	-	3,680,500	3,408,358	3,680,500	3,408,358
Total expenses	86,945,917	87,418,836	13,410,965	13,846,081	100,356,882	101,264,917
Change in net assets	11,058,694	6,914,452	3,724,434	3,441,087	14,783,128	10,355,539
Net assets, beginning	281,007,309	274,092,857	83,834,093	80,393,006	364,841,402	354,485,863
Net assets, ending	\$ 292,066,003	\$ 281,007,309	\$ 87,558,527	\$ 83,834,093	\$ 379,624,530	\$ 364,841,402

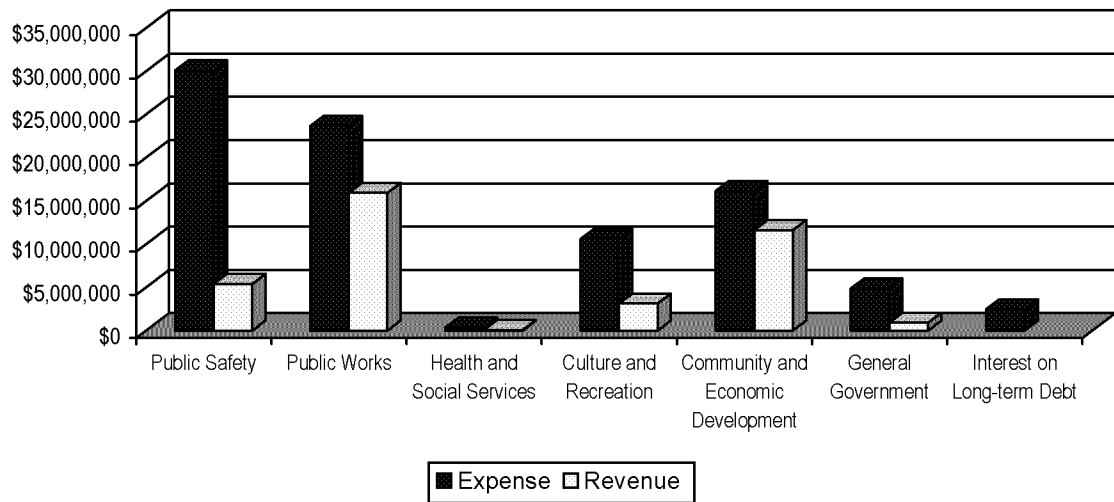
City of Waterloo, Iowa

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2012

Total governmental activities' revenue for the current fiscal year was \$98,004,611. The largest single revenue source for the City was property taxes of \$42,822,680. Property taxes increased by \$1,793,829 (4.4 percent) during the year. This increase is a result of a combination of factors, including an increase in the assessed value of property of 0.78 percent, an increase of 2.7 percent in the taxable value of property and a 1.47 percent increase in the levy rate.

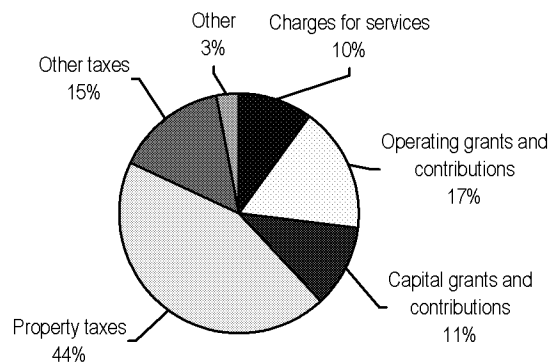
Certain revenues are generated that are specific to governmental program activities. These totaled \$37,011,820 during the fiscal year ended June 30, 2012. The graph below illustrates the comparison between the expenses by governmental activity type and the revenues generated that are specific to those activities.

Expenses and Program Revenues – Governmental Activities



The graph below shows the percentage of the total governmental revenues allocated by each revenue type.

Revenues by Source – Governmental Activities



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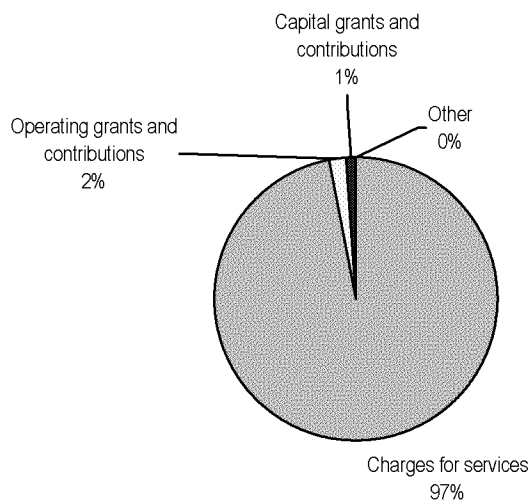
Total business-type activities' revenue for the fiscal year was \$17,135,399. \$17,072,620 of this revenue was generated for specific business-type activity expenses. The graph below shows a comparison between the business-type activity expenses and program revenues.

Expenses and Program Revenues – Business-type Activities



The graph below shows the breakdown of revenues by source for the business-type activities.

Revenues by Source – Business-type Activities



Business-type activities. Business-type activities increased the City of Waterloo's net assets by \$3,724,434, accounting for 25 percent of the growth in the government's net assets. This increase was due primarily to the generation of operating revenue that will be used for the construction of mandated sewer system improvements and to repay related debt. The City sold refunding bonds June 28 to refund the 2003A and 2005A general obligation bond issues. The bonds were not refunded until July, resulting in additional cash held by the City for sewer purposes at June 30, 2012 of \$1,200,000. The City also refunded all outstanding sewer revenue bonds in August 2011, reducing the debt reserve requirements by \$1,515,000 and reducing the anticipated expense for sewer revenue debt retirement by \$390,000. Actual operating and capital expenses were less than planned, resulting in additional cash held.

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Management's Discussion and Analysis For Fiscal Year Ended June 30, 2012

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City of Waterloo's governmental funds reported combined ending fund balances of \$55,967,779, an increase of \$1,358,205 in comparison with the prior year. Fund balance in the amount of \$53,484,964 is not available for new spending because it is nonspendable or has already been restricted, committed or assigned for a variety of purposes. Approximately 4.4 percent of total fund balance \$(2,482,815) constitutes unassigned fund balance.

The General Fund is the chief operating fund of the City of Waterloo. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$9,644,699, while total fund balance was \$18,212,204. As a measure of the General Funds' liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 22.0 percent of total General Fund expenditures, while total fund balance represents 41.5 percent of that same amount.

The City originally budgeted to use unassigned fund balance of \$609,056 for general fund operations. A budget amendment was done to use additional fund balance of \$893,835 to cover a twenty-seventh pay period that fell into this fiscal year, although the City had assigned fund balance of \$1,062,000 for that purpose.

Variances in actual results versus amounts budgeted resulted in a net increase in unassigned fund balance of \$1,227,099. Significant items that contributed to the overall General Fund increase included activity in a number of departments. The police department spent \$440,080 less than expected and collected \$19,357 more in revenue. The fire department spent \$339,334 less than expected, but collected \$65,487 less in revenue than expected. The building inspections department spent \$44,395 less than anticipated. Parking revenue was \$131,566 more than anticipated, while expenses were \$20,902 less than budgeted. The Center for the Arts spent \$80,306 less than budgeted and the library spent \$42,637 less than budgeted. The Leisure Services department spent \$217,471 less than budgeted, while actual revenues exceeded the amount budgeted by \$149,745. The Clerk/Finance department spent \$294,861 less than budgeted, while the City Attorney spent \$25,871 more than anticipated. The facilities maintenance department spent \$30,725 less than expected. More funds were transferred from the Trust and Agency Fund than was originally budgeted in the amount of \$221,802. Most of the savings in expenses were due to vacant positions that were not immediately filled. Several revenue sources for Leisure Services increased. Golf and pool revenue both increased due to the much drier weather experienced in 2012.

Trust & Agency Fund—The net decrease in fund balance during the current year was \$313,248, due primarily to using fund balance to pay the payroll taxes related to the twenty-seventh pay period.

The Local Option Tax Fund—Although revenue exceeded the amount budgeted by \$598,796, a large portion of that increase was due to a change in the timing of when funds are received. Construction expenses were less than budgeted due to a delay in reaching an agreement for a railroad crossing and two other projects not ready for construction.

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The General Obligation Debt Service Fund—The net increase in fund balance during the current year is largely due to receiving the proceeds of a refunding bond issue near the end of June but not redeeming the outstanding issues until July 2012.

The Grants Fund—The City completed work on several large projects for which reimbursements were not received by year-end, increasing the temporary deficit fund balance.

TIF Fund—Has a total fund balance of \$1,502,363, all of which is restricted for the payment of debt service. The net decrease in fund balance during the current year was \$212,764 which was less than the planned decrease of \$588,916. Fund balance in this fund is the result of timing differences between revenue collections and the payment of TIF obligations.

Proprietary funds. The City of Waterloo's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Total net assets of the sanitary sewer fund at the end of the year were \$82,780,254, an increase of \$3,563,022. This increase was due primarily to the generation of operating revenue that will be used for the construction of mandated sewer system improvements and repay related debt.

Other factors concerning the finances of the sanitary sewer fund have already been addressed in the discussion of the City of Waterloo's business-type activities.

Budgetary Highlights

In accordance with the Code of Iowa, the City Council annually adopts a budget on the modified cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type and non-program. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds and permanent funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. These budget amendments are reflected in the final budgeted amounts.

Differences between the original budget and the final amended budget for the City of Waterloo are summarized below.

The total original expenditure budget including transfers out of \$173,354,350 was increased to \$197,552,138 (an increase of \$24,197,788).

- The City added project budgets for several Public Safety department grants and expenses funded with other miscellaneous revenue that were approved after the original budget certification date (\$0.8 million).
- The City amended the budget for several construction projects for the airport due to additional FAA grant funds received after the original budget certification date and also added expenses to reflect higher than anticipated fuel prices (\$1.0 million).
- Expenses were increased for additional grants and donations received for Leisure Services, Cultural/Arts and the Library (\$0.6 million).
- The City increased expenditures to reflect additional disaster recovery grants for new construction, as well as additional HUD revenue for the Section 8 housing program (\$1.0 million).

City of Waterloo, Iowa

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2012

- Expenses were increased to reflect increased medical and liability insurance claims anticipated to be paid out during the year (\$0.7 million).
- The City amended the debt service budget to provide for a general obligation bond refunding issue (\$6.9 million).
- Expenses were increased for capital projects approved for design and construction after the original budget certification date and also to reflect work completed during the current year on capital projects that were originally included in the prior year budget (\$2.8 million).
- Budgeted expenditures were increased for the sewer department due to a sewer revenue bond refunding issue that did not close in the prior fiscal year as originally budgeted and for the sanitation department to purchase equipment originally budgeted to be purchased last fiscal year but not purchased until this fiscal year (\$8.0 million).
- Transfers out were increased to reflect the sewer portion of the refunding bond issue as well as an increased transfer from the storm water fund for the Cattle Congress Pump Station project (\$0.9 million).
- The City amended the budget for personnel expenses for all City departments to cover an extra pay period that occurred in the fiscal year ended June 30, 2012 (\$1.3 million).

The total original revenue budget, including other financing sources of \$168,260,538 was increased to \$188,445,924 (an increase of \$20,185,386).

- Hotel-motel tax revenue was increased to reflect higher revenues than originally budgeted (\$0.1 million).
- State and federal grant revenue was increased to reflect several additional grants awarded after the original budget certification for such things as public safety projects, airport improvements, disaster recovery, housing assistance, residential housing rehabilitation, traffic signal projects, as well as others (\$3.0 million).
- Amendments were made to storm water and sanitation charges for service as well as other miscellaneous charges for services to reflect higher revenues than originally anticipated with the certified budget (\$0.5 million).
- Donation revenue was increased to reflect additional donations received from Black Hawk Gaming as well as other entities for various City projects (\$1.8 million).
- Insurance refunds were added related to medical claims reimbursed by the City's stop loss insurance (\$0.6 million).
- The City amended the original budget for debt proceeds to reflect bond proceeds from general obligation and sewer revenue bond refunding issues (\$13.1 million).
- Transfers in were increased to reflect the sewer portion of the refunding bond issue as well as an increased transfer for the Cattle Congress Pump Station project (\$0.9 million).

See pages 69 through 75 for the Budgetary Comparison Schedule - Budget and Actual (Modified Cash Basis) – All Governmental Funds and Proprietary Funds.

City of Waterloo, Iowa

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2012

Capital Asset and Debt Administration

Capital Assets. The City of Waterloo's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounts to \$392,228,686 (net of accumulated depreciation) as reflected in the following table. The total increase in the City of Waterloo's investment in capital assets for the current fiscal year was 3.4 percent (a 3.8 percent increase for governmental activities and a 2.2 percent increase for business-type activities).

This investment in capital assets includes land, buildings and improvements, park facilities, vehicles and equipment, and roads, highways and bridges (also referred to as infrastructure assets) placed in service since July 1, 1980.

City of Waterloo's Capital Assets at Fiscal Year End (Net of Depreciation)						
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 39,465,219	\$ 37,545,929	\$ 348,055	\$ 348,055	\$ 39,813,274	\$ 37,893,984
Land held for redevelopment	6,012,930	7,084,373	-	-	6,012,930	7,084,373
Buildings and improvements	47,912,250	48,232,781	50,634,283	52,003,440	98,546,533	100,236,221
Other improvements	-	-	30,156,344	29,105,223	30,156,344	29,105,223
Software	314,134	104,423	15,952	19,940	330,086	124,363
Infrastructure	190,465,572	181,986,524	-	-	190,465,572	181,986,524
Furniture, vehicles, machinery and equipment	9,770,772	9,286,583	2,097,456	1,744,734	11,868,228	11,031,317
Construction-in-progress	11,784,035	10,337,694	3,247,696	1,449,380	15,031,731	11,787,074
	\$ 305,724,912	\$ 294,578,307	\$ 86,499,786	\$ 84,670,772	\$ 392,224,698	\$ 379,249,079

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

- The City continued to acquire land and buildings in the Downtown Master Plan Redevelopment Area at a total cost of \$1.58 million. Land was also acquired in the Shaulis Road extension project in the amount of \$652,000 as well as for continued development in the San Marnan TIF District at a cost of \$783,000. In addition, acquisitions and demolitions of property damaged by the June 2008 floods were completed at a total cost of \$376,000. The City transferred land that was previously acquired at a cost of \$500,000 for the relocation of the Iowa Community Credit Union. Land previously acquired at a cost of \$993,000 was transferred to Dolly James, LLC for the Riverfront Housing project. In addition, land previously acquired at a cost of \$1.0 million was transferred to the Northeast Iowa Food Bank.
- Construction of the Mark's Park Play Area was completed during the year June 30, 2012 at a total cost of \$1.3 million. In addition, rehabilitation of the Terminal Apron at the Waterloo Regional Airport was completed at a cost of \$406,000 as well as interior development of the Public Market building at a cost of \$382,000. Additional improvements completed in the amount of \$500,000 included basketball and tennis courts at Highland Park, a new shelter and playground equipment at Sullivan Park, fencing and scoreboards at Riverfront Sports Park and collection storage furnishings at the Center for Arts. Construction costs for the new Public Works facility were added to construction in progress at June 30, 2012 in the amount of \$2.4 million.

City of Waterloo, Iowa

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2012

- Significant investments in street construction, reconstruction and overlay programs funded with local option taxes and grants were completed (\$9.0 million) and transferred to infrastructure assets. In addition, the Cedar River Dam Portages as well as another segment of the RiverWalk Loop were completed and transferred to infrastructure assets at a total cost of \$2.2 million. Construction of the Upper and Lower Plazas was completed during the year ended June 30, 2012 at a total cost of \$5.1 million. An additional \$5.5 million was invested in new street construction, repair of existing streets and construction of recreational trails still in progress at June 30, 2012.
- The City invested \$698,000 in new vehicles and equipment for the Sewer, Storm Water and Sanitation departments as well as added \$755,000 in sanitary sewer infrastructure assets.

Additional information about the City of Waterloo's capital assets can be found in Note 6 of this report.

Long-term liabilities. At the end of the current fiscal year, the City of Waterloo had total bonded debt outstanding of \$93,770,000. Of this amount, \$89,070,000 is comprised of debt backed by the full faith and credit of the government. The remainder of the City of Waterloo's bonded debt (\$4,700,000) represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

The City has incurred other debt to construct Ridgeway Towers, purchase land in the City's industrial parks and complete projects, as well as purchase equipment. The City has obligations to employees for benefit time not used at fiscal year end. During the current fiscal year the balance due on these obligations increased by \$695,707.

City of Waterloo Long-term Outstanding Debt						
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Bonded Debt:						
General obligation bonds	\$ 68,171,100	\$ 65,483,600	\$ 20,898,900	\$ 20,106,400	\$ 89,070,000	\$ 85,590,000
Revenue bonds	-	-	4,700,000	7,655,000	4,700,000	7,655,000
Total bonded debt	68,171,100	65,483,600	25,598,900	27,761,400	93,770,000	93,245,000
Other Debt:						
Loans and notes	2,111,200	2,806,907	-	-	2,111,200	2,806,907
Deferred compensation	21,714	43,628	12,196	15,172	33,910	58,800
Compensated absences	3,423,687	3,325,805	283,458	255,023	3,707,145	3,580,828
Total other debt	5,556,601	6,176,340	295,654	270,195	5,852,255	6,446,535
Total long-term debt outstanding	\$ 73,727,701	\$ 71,659,940	\$ 25,894,554	\$ 28,031,595	\$ 99,622,255	\$ 99,691,535

The City of Waterloo's total long-term liabilities decreased by \$69,280 (0.07 percent) during the current fiscal year.

The government issued general obligation bonds in the amount of \$13,490,000 during the current fiscal year, including \$5,450,000 of general obligation refunding bonds issued to take advantage of more favorable interest rates. The government also issued refunding revenue bonds in the amount of \$6,285,000.

City of Waterloo, Iowa

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2012

The City of Waterloo maintains an Aa2 rating from Moody's Investor Services, Inc. for general obligation debt and an Aa3 rating for sewer revenue debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5 percent of its total assessed valuation. The current debt limitation for the City of Waterloo is \$180,600,669, which is significantly in excess of the City of Waterloo's outstanding general obligation debt (\$89,070,000) and other debt subject to the debt limitation (\$2,147,519). The total debt subject to this limitation is \$91,217,519, resulting in available debt margin of \$89,383,150.

Additional information about the City of Waterloo's long-term liabilities can be found in Note 9 of this report.

Economic Factors and Next Year's Budgets and Rates

Property taxes provide 52 percent of General Fund revenues. Over the past five years, citywide assessed valuations have risen an average of 3.9 percent annually, while property tax regulations imposed by the State of Iowa resulted in taxable values increasing by 5.42 percent. The fiscal 2013 budget reflects total property tax and utility excise tax revenue growth of 4.6 percent.

Personnel costs make up a significant portion of City operating costs. Wage increases identified in contractual bargaining agreements are 1.9 percent for fiscal year 2013.

Funding the cost of providing health care for City employees and retirees continues to be a challenge. Anticipated health care cost increases of nearly 18 percent were budgeted for the fiscal year 2013, after increases in the portion of health care premiums paid by participating employees effective July 1, 2011.

Federal and state mandates for clean water continue to result in additional costs both for sewer system users and property taxpayers.

The current national economic environment continues to have an impact on the local economy, although to a lesser degree through the date of this report. The rate of growth in sales tax revenue is decreasing. Residential property values have remained at a stable level. An encouraging sign is that building permit revenue for new property increased significantly for the second consecutive year.

These factors were considered in preparing the City of Waterloo's budget for fiscal year 2013.

Requests for Information

This financial report is designed to provide a general overview of the City of Waterloo's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Michelle C. Weidner, CPA, Chief Financial Officer, City of Waterloo, 715 Mulberry Street, Waterloo, Iowa 50703.

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City of Waterloo, Iowa

Statement of Net Assets June 30, 2012

	Primary Government			Waterloo	Waterloo
	Governmental	Business-Type		Water Works	Convention
	Activities	Activities	Total		& Visitors
					Bureau, Inc.
Assets					
Current assets:					
Cash and cash equivalents	\$ 44,662,344	\$ 11,234,737	\$ 55,897,081	\$ 5,758,307	\$ 462,693
Investments	502,638	-	502,638	210,000	213,849
Receivables:					
Customer accounts, net of allowance for uncollectible accounts	2,687,798	3,539,810	6,227,608	1,303,502	-
Property taxes:					
Delinquent	356,963	-	356,963	-	-
Succeeding year	45,820,209	-	45,820,209	-	-
Internal accounts	117,496	(117,496)	-	-	-
Due from other governments:					
Component unit	-	1,114,307	1,114,307	-	-
Primary government	-	-	-	-	312,830
Other	13,872,678	272,480	14,145,158	-	-
Accrued interest	5	-	5	993	1,369
Special assessments	91,358	168,112	259,470	-	-
Inventories and prepaids	623,792	3,196	626,988	77,626	7,683
Restricted cash and cash equivalents	1,370,659	12,480	1,383,139	-	-
Total current assets	110,105,940	16,227,626	126,333,566	7,350,428	998,424
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	8,064,241	12,559,456	20,623,697	-	-
Investments	-	-	-	480,000	94,556
Receivables	18,570	-	18,570	-	-
Loans and notes, net of allowance for uncollectible amounts	27,500	-	27,500	-	-
Special assessments	286,374	-	286,374	360,228	-
Debt issue cost, net of accumulated amortization	278,578	140,342	418,920	10,518	-
Capital assets, net of accumulated depreciation	248,462,728	82,904,035	331,366,763	19,857,943	135,795
Capital assets not being depreciated	57,262,184	3,595,751	60,857,935	835,128	-
Total noncurrent assets	314,400,175	99,199,584	413,599,759	21,543,817	230,351
Total assets	\$ 424,506,115	\$ 115,427,210	\$ 539,933,325	\$ 28,894,245	\$ 1,228,775

See Notes to Basic Financial Statements.

	Primary Government			Waterloo	Waterloo
	Governmental	Business-Type	Total	Water Works	Convention & Visitors Bureau, Inc.
	Activities	Activities			
Liabilities					
Current:					
Accounts and retainages payable	\$ 5,180,723	\$ 1,354,021	\$ 6,534,744	\$ 55,924	\$ 1,567
Accrued liabilities and other	895,540	130,098	1,025,638	133,753	12,734
Due to primary government	-	-	-	1,168,733	-
Due to component unit	312,830	-	312,830	-	-
Due to other governments	-	-	-	56,776	-
Noncurrent liabilities due and payable					
within one year	11,868,054	3,898,972	15,767,026	335,000	-
Unearned revenues	46,549,635	-	46,549,635	-	-
Current liabilities payable from restricted assets:					
Health claims	1,269,295	-	1,269,295	-	-
Other	101,364	-	101,364	-	-
Accrued interest	-	12,480	12,480	-	-
Total current liabilities	66,177,441	5,395,571	71,573,012	1,750,186	14,301
Noncurrent:					
Customer deposits	101,693	311,310	413,003	131,816	-
Revenue bonds and notes, net deferred amount on refunding	-	2,961,957	2,961,957	1,457,216	-
General obligation bonds and notes, net of bond discounts, deferred amount on refunding and premium	59,718,570	18,732,024	78,450,594	-	-
Other loans and notes	1,786,352	-	1,786,352	-	-
Other postemployment benefits obligation	3,896,661	408,339	4,305,000	-	-
Compensated absences and deferred compensation	759,395	59,482	818,877	-	-
Total noncurrent liabilities	66,262,671	22,473,112	88,735,783	1,589,032	-
Total liabilities	132,440,112	27,868,683	160,308,795	3,339,218	14,301
Net Assets					
Invested in capital assets, net of related debt	250,819,314	71,243,134	322,062,448	19,218,071	135,795
Restricted for:					
Debt service	5,816,957	892,667	6,709,624	330,000	-
Self-funded health insurance	1,987,881	-	1,987,881	-	-
Tourism promotion	759,613	-	759,613	-	-
Public access television	91,065	-	91,065	-	-
Housing	4,492,541	-	4,492,541	-	-
Donor specified	524,412	-	524,412	-	-
Employee benefits	2,465,761	-	2,465,761	-	-
Library	91,229	-	91,229	-	-
Street construction	7,504,040	-	7,504,040	-	-
Loan reserve	517,553	-	517,553	-	-
Street and right-of-way maintenance	4,936,712	-	4,936,712	-	-
Improvements	2,364,794	763,027	3,127,821	-	-
Unrestricted	9,694,131	14,659,699	24,353,830	6,006,956	1,078,679
Total net assets	292,066,003	87,558,527	379,624,530	25,555,027	1,214,474
Total liabilities and net assets	\$ 424,506,115	\$ 115,427,210	\$ 539,933,325	\$ 28,894,245	\$ 1,228,775

City of Waterloo, Iowa

**Statement of Activities
Year Ended June 30, 2012**

Programs/Functions	Program Revenues				
	Direct Expenses	Indirect Allocations	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:					
Public safety	\$ 30,037,249	\$ -	\$ 3,602,246	\$ 1,801,602	\$ -
Public works	23,677,561	(380,000)	2,224,870	9,902,549	3,803,643
Health and social services	353,589	(75,000)	5,455	37,302	-
Culture and recreation	10,565,120	(50,000)	2,592,204	326,474	203,040
Community and economic development	16,138,333	-	576,020	4,325,213	6,714,052
General government	4,857,855	(638,500)	686,841	210,309	-
Interest on long-term debt	2,459,710	-	-	-	-
Total governmental activities	88,089,417	(1,143,500)	9,687,636	16,603,449	10,720,735
Business-type activities:					
Sanitary Sewer	9,038,465	692,000	13,147,754	54,041	82,443
Sanitation	3,229,000	451,500	3,572,238	215,584	560
Total business-type activities	12,267,465	1,143,500	16,719,992	269,625	83,003
Total primary government	\$ 100,356,882	\$ -	\$ 26,407,628	\$ 16,873,074	\$ 10,803,738
Component unit, Waterloo Water Works	\$ 5,515,692	\$ -	\$ 7,042,346	\$ 351,835	\$ 70,745
Component unit, Waterloo Convention & Visitors Bureau, Inc.	\$ 540,527	\$ -	\$ -	\$ 623,011	\$ -

General Revenues

Taxes:

Property taxes levied for general purposes

Property taxes levied for debt service

Other taxes:

Local option sales

Utility excise

Gaming

Hotel/motel

Cable television

Mobile home

Investment earnings

Miscellaneous

Transfers

Total general revenues and transfers

Changes in net assets

Net assets, beginning of year

Net assets, end of year

See Notes to Basic Financial Statements.

Net (Expense) Revenue and Changes in Net Assets			Component Units	
Governmental Activities	Business-Type Activities	Total	Waterloo Water Works	Waterloo Convention & Visitors Bureau, Inc.
\$ (24,633,401)	\$ -	\$ (24,633,401)	\$ -	\$ -
(7,366,499)	-	(7,366,499)	-	-
(235,832)	-	(235,832)	-	-
(7,393,402)	-	(7,393,402)	-	-
(4,523,048)	-	(4,523,048)	-	-
(3,322,205)	-	(3,322,205)	-	-
(2,459,710)	-	(2,459,710)	-	-
(49,934,097)	-	(49,934,097)	-	-
-	3,553,773	3,553,773	-	-
-	107,882	107,882	-	-
-	3,661,655	3,661,655	-	-
(49,934,097)	3,661,655	(46,272,442)	-	-
-	-	-	1,949,234	-
-	-	-	-	82,484
29,825,135	-	29,825,135	-	-
12,997,545	-	12,997,545	-	-
9,697,321	-	9,697,321	-	-
1,661,363	-	1,661,363	-	-
1,253,433	-	1,253,433	-	-
1,246,022	-	1,246,022	-	-
917,690	-	917,690	-	-
68,493	-	68,493	-	-
54,485	18,612	73,097	45,877	9,663
3,315,471	-	3,315,471	135,440	5,460
(44,167)	44,167	-	-	-
60,992,791	62,779	61,055,570	181,317	15,123
11,058,694	3,724,434	14,783,128	2,130,551	97,607
281,007,309	83,834,093	364,841,402	23,424,476	1,116,867
\$ 292,066,003	\$ 87,558,527	\$ 379,624,530	\$ 25,555,027	\$ 1,214,474

City of Waterloo, Iowa

**Balance Sheet
Governmental Funds
June 30, 2012**

Assets	General	Trust and Agency	Local Option Tax
Cash and cash equivalents	\$ 6,715,450	\$ 557,394	\$ 8,757,343
Investments	-	-	-
Receivables:			
Customer accounts, net	864,121	-	-
Property tax:			
Delinquent	170,484	99,134	-
Succeeding year	19,249,397	11,931,722	-
Special assessments	377,732	-	-
Accrued interest	-	-	-
Loans and notes	27,500	-	-
Due from other funds	7,101,605	-	13,598
Due from other governments:			
Federal	453,735	-	-
Iowa	643,160	-	1,581,215
Other	251,022	142,520	58,995
Inventories and prepaids	326,276	-	-
Restricted assets:			
Cash and cash equivalents	4,981,983	1,844,107	-
Receivables	18,570	-	-
Total assets	\$ 41,181,035	\$ 14,574,877	\$ 10,411,151

(Continued)

Grants	Tax Increment Financing	General Obligation Debt Service	Other Governmental	Total
\$ -	\$ 2,518,571	\$ 4,836,387	\$ 21,277,199	\$ 44,662,344
-	-	-	502,638	502,638
-	-	-	1,823,677	2,687,798
-	22,531	59,883	4,931	356,963
-	6,504,881	7,540,739	593,470	45,820,209
-	-	-	-	377,732
-	-	-	5	5
-	-	-	-	27,500
-	-	-	685,381	7,800,584
720,018	-	-	1,141,471	2,315,224
6,799,159	-	-	1,836,044	10,859,578
-	131,171	97,974	16,194	697,876
-	-	-	297,516	623,792
-	-	39,197	2,569,613	9,434,900
-	-	-	-	18,570
<u>\$ 7,519,177</u>	<u>\$ 9,177,154</u>	<u>\$ 12,574,180</u>	<u>\$ 30,748,139</u>	<u>\$ 126,185,713</u>

City of Waterloo, Iowa

Balance Sheet (Continued)
Governmental Funds
June 30, 2012

	General	Trust and Agency	Local Option Tax
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 447,916	\$ 16,131	\$ 766,412
Retainages payable	-	-	297,573
Accrued liabilities	519,105	62,129	17,239
Due to other funds	-	-	-
Deferred revenue	20,185,396	12,030,856	-
Compensated absences	132,925	-	1,334
Due to Waterloo Convention & Visitors Bureau, Inc.	312,830	-	-
Payables from restricted assets	1,370,659	-	-
Total liabilities	22,968,831	12,109,116	1,082,558
Fund balances (deficits):			
Nonspendable	326,276	-	-
Restricted	3,438,392	2,465,761	7,504,040
Assigned	4,802,837	-	1,824,553
Unassigned	9,644,699	-	-
Total fund balances (deficits)	18,212,204	2,465,761	9,328,593
Total liabilities and fund balances (deficits)	\$ 41,181,035	\$ 14,574,877	\$ 10,411,151

See Notes to Basic Financial Statements.

Grants	Tax Increment Financing	General Obligation Debt Service	Other Governmental	Total
\$ 1,544,381	\$ 31,157	\$ 25,768	\$ 1,489,932	\$ 4,321,697
206,812	-	-	354,641	859,026
798	-	-	92,819	692,090
5,273,198	1,116,222	996	1,292,672	7,683,088
5,837,720	6,527,412	7,600,622	2,530,950	54,712,956
-	-	-	29,636	163,895
-	-	-	-	312,830
-	-	-	101,693	1,472,352
12,862,909	7,674,791	7,627,386	5,892,343	70,217,934
-	-	-	297,516	623,792
-	1,073,613	4,946,794	26,296,738	45,725,338
-	428,750	-	79,694	7,135,834
(5,343,732)	-	-	(1,818,152)	2,482,815
(5,343,732)	1,502,363	4,946,794	24,855,796	55,967,779
\$ 7,519,177	\$ 9,177,154	\$ 12,574,180	\$ 30,748,139	\$ 126,185,713

City of Waterloo, Iowa

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets June 30, 2012

Total governmental fund balances		\$	55,967,779
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets net of accumulated depreciation used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds			305,724,912
Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds			8,163,321
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:			
General obligation bonds	\$	(68,171,100)	
Other loans and notes		(2,111,200)	
Bond issuance costs		278,578	
Bond deferred amount on refunding		4,014	
Bond discount		138,214	
Bond premium		(546,898)	
Other post employment benefits obligation		(3,896,661)	
Compensated absences and deferred compensation		(3,281,506)	
Accrued interest payable		(203,450)	(77,790,009)
Net assets of governmental activities			\$ 292,066,003

See Notes to Basic Financial Statements.

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City of Waterloo, Iowa

Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits) Governmental Funds Year Ended June 30, 2012

	General	Trust and Agency	Local Option Tax
Revenues:			
Property taxes	\$ 17,897,588	\$ 11,416,646	\$ -
Other taxes	4,571,228	538,942	9,998,796
Licenses and permits	1,102,104	-	-
Investment income	19,751	5,814	7,968
Rent	859,563	-	-
Intergovernmental	1,925,231	-	-
Charges for services	6,426,802	-	3,318
Interfund charges for services	1,885,000	-	-
Special assessments	93,870	-	-
Miscellaneous	2,267,944	-	4,262
Total revenues	37,049,081	11,961,402	10,014,344
Expenditures:			
Current operating:			
Public safety	25,727,841	3,437,742	-
Public works	2,762,123	-	9,895,540
Health and social services	346,952	-	-
Culture and recreation	8,639,283	-	-
Community and economic development	1,761,904	-	-
General government	4,670,933	49,267	-
Debt service:			
Principal	-	-	-
Interest and fees	-	-	-
Bond issuance costs	-	-	-
Capital outlay	-	-	-
Total expenditures	43,909,036	3,487,009	9,895,540
Excess (deficiency) of revenues over expenditures	(6,859,955)	8,474,393	118,804
Other financing sources (uses):			
Transfers in	8,876,141	-	-
Transfers out	(1,825,612)	(8,787,641)	-
Insurance proceeds	6,729	-	-
Bond discount	-	-	-
Bond premium	-	-	-
Proceeds from sale of capital assets	142,886	-	500
Refunding bonds issued	-	-	-
Issuance of long-term debt	-	-	-
Total other financing sources (uses)	7,200,144	(8,787,641)	500
Net changes in fund balances	340,189	(313,248)	119,304
Fund balances (deficits), beginning of year	17,872,015	2,779,009	9,209,289
Fund balances (deficits), end of year	\$ 18,212,204	\$ 2,465,761	\$ 9,328,593

See Notes to Basic Financial Statements.

Grants	Tax Increment Financing	General Obligation Debt Service	Other Governmental	Total
\$ -	\$ 5,594,614	\$ 7,402,931	\$ 552,312	\$ 42,864,091
-	-	325,679	26,073	15,460,718
-	-	-	17,782	1,119,886
-	2,974	3,653	14,325	54,485
-	-	140,132	186,724	1,186,419
5,281,763	-	86,364	18,303,630	25,596,988
2,775	-	-	315,390	6,748,285
-	-	-	50,000	1,935,000
-	-	-	-	93,870
5,821	-	133,488	1,291,248	3,702,763
5,290,359	5,597,588	8,092,247	20,757,484	98,762,505
92,067	-	-	15,067	29,272,717
5,530,150	-	-	7,377,924	25,565,737
-	-	-	-	346,952
190,373	-	-	567,258	9,396,914
1,120,034	1,899,028	-	9,013,138	13,794,104
235,626	-	-	278	4,956,104
-	307,964	8,315,243	-	8,623,207
-	98,253	2,372,904	-	2,471,157
-	-	25,768	39,780	65,548
-	-	-	14,140,916	14,140,916
7,168,250	2,305,245	10,713,915	31,154,361	108,633,356
(1,877,891)	3,292,343	(2,621,668)	(10,396,877)	(9,870,851)
-	88,500	2,925,643	2,316,576	14,206,860
-	(3,593,607)	-	-	(14,206,860)
13,239	-	-	-	19,968
-	-	(23,039)	-	(23,039)
-	-	-	147,504	147,504
-	-	-	1,237	144,623
-	-	4,200,000	-	4,200,000
-	-	-	6,740,000	6,740,000
13,239	(3,505,107)	7,102,604	9,205,317	11,229,056
(1,864,652)	(212,764)	4,480,936	(1,191,560)	1,358,205
(3,479,080)	1,715,127	465,858	26,047,356	54,609,574
\$ (5,343,732)	\$ 1,502,363	\$ 4,946,794	\$ 24,855,796	\$ 55,967,779

City of Waterloo, Iowa

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2012

Net change in fund balances - governmental funds	\$	1,358,205
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or construct 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 outlay and depreciation expense for the year are as follows:

Capital outlay	\$ 26,436,497	
Depreciation	<u>(12,704,240)</u>	13,732,257

The net effect of various miscellaneous transactions involving capital assets is to increase/decrease net assets:

Donated capital assets		388,559
Transfer of capital assets to enterprise fund		(44,167)
Proceeds from sale of capital assets	(144,623)	
Net loss on disposal of capital assets	<u>(2,785,421)</u>	(2,930,044)

The issuance of long-term debt provides current financial resources to governmental funds while repayment of the principal of long-term debt consumes current financial resources. These transactions have no effect on the change in net assets in the statement of activities. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. In addition, interest is accrued on outstanding debt in the statement of activities whereas in the governmental funds an interest expenditure is reported only when due. The following is a detail of the net effect on these differences in the treatment of long-term debt and related items:

General obligation bonds issued for governmental purposes	(10,940,000)	
Repayment of general obligation bond principal	8,252,500	
Repayment of other long-term debt principal	370,707	
Forgiveness of other long-term debt	325,000	
Bond issuance costs	65,548	
Bond discount	23,039	
Bond premium	(147,504)	
Amortization of issuance costs, discount, premium and deferred amount on refunding	(17,633)	
Change in accrued interest	<u>29,080</u>	(2,039,263)

Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the governmental funds:

Current year	8,163,321
Prior year	(7,350,575)

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

Change in other post employment benefits obligation	(145,378)
Change in compensated absences and deferred compensation paid	(74,221)
Change in net assets of governmental activities	<u><u>\$ 11,058,694</u></u>

See Notes to Basic Financial Statements.

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City of Waterloo, Iowa

Statement of Net Assets Enterprise Funds June 30, 2012

	Sanitary Sewer	Nonmajor - Sanitation	Total
Assets			
Current assets:			
Cash	\$ 8,572,055	\$ 2,662,682	\$ 11,234,737
Customer accounts receivable	2,784,435	755,375	3,539,810
Special assessments receivable	43,276	124,836	168,112
Due from other funds	-	11,701	11,701
Due from other governments:			
Waterloo Water Works	782,899	331,408	1,114,307
Other	185,709	86,771	272,480
Inventories	3,196	-	3,196
Restricted cash	12,480	-	12,480
Total current assets	12,384,050	3,972,773	16,356,823
Noncurrent assets:			
Restricted cash	12,464,396	95,060	12,559,456
Bond issue costs, net of accumulated amortization	140,342	-	140,342
Capital assets, net of accumulated depreciation	81,603,028	1,301,007	82,904,035
Capital assets not being depreciated	3,595,751	-	3,595,751
Net capital assets	85,198,779	1,301,007	86,499,786
Total noncurrent assets	97,803,517	1,396,067	99,199,584
Total assets	\$ 110,187,567	\$ 5,368,840	\$ 115,556,407

See Notes to Basic Financial Statements.

	Major - Sanitary Sewer	Nonmajor - Sanitation	Total
Liabilities and Net Assets			
Liabilities:			
Current:			
Accounts payable	\$ 952,639	\$ 280,961	\$ 1,233,600
Retainages payable	120,421	-	120,421
Accrued liabilities	108,147	21,951	130,098
Due to other funds	129,197	-	129,197
Current maturities of general obligation and revenue bonds	3,662,800	-	3,662,800
Compensated absences and deferred compensation	169,378	66,794	236,172
Accrued interest, revenue bonds	12,480	-	12,480
Total current liabilities	5,155,062	369,706	5,524,768
Noncurrent:			
Security deposits	216,250	95,060	311,310
General obligation bonds, net bond discount, reacquisition costs and premium	18,732,024	-	18,732,024
Revenue bonds, net of deferred amount on refunding	2,961,957	-	2,961,957
Other postemployment benefits obligation	285,143	123,196	408,339
Compensated absences and deferred compensation	50,843	8,639	59,482
Total noncurrent liabilities	22,246,217	226,895	22,473,112
Total liabilities	27,401,279	596,601	27,997,880
Net assets:			
Invested in capital assets, net of related debt	69,942,127	1,301,007	71,243,134
Restricted for:			
Debt service	892,667	-	892,667
Improvements	763,027	-	763,027
Unrestricted	11,188,467	3,471,232	14,659,699
Total net assets	82,786,288	4,772,239	87,558,527
Total liabilities and net assets	\$ 110,187,567	\$ 5,368,840	\$ 115,556,407

City of Waterloo, Iowa

Statement of Revenues, Expenses and Changes in Net Assets
Enterprise Funds
Year Ended June 30, 2012

	Sanitary Sewer	Nonmajor - Sanitation	Total
Operating revenues:			
Charges for sales and service	\$ 13,074,664	\$ 3,572,238	\$ 16,646,902
Miscellaneous	73,090	-	73,090
Total operating revenues	13,147,754	3,572,238	16,719,992
Operating expenses:			
Salaries and benefits	3,172,994	1,375,562	4,548,556
Contractual services	1,557,249	1,065,159	2,622,408
Intra-city reimbursements	692,000	451,500	1,143,500
Commodities	1,129,927	527,155	1,657,082
Depreciation	2,308,301	261,124	2,569,425
Total operating expenses	8,860,471	3,680,500	12,540,971
Operating income (loss)	4,287,283	(108,262)	4,179,021
Nonoperating revenues (expenses):			
Interest income	15,283	3,329	18,612
Intergovernmental	54,041	215,584	269,625
Interest expense	(847,235)	-	(847,235)
Amortization of bond issue costs	(22,759)	-	(22,759)
Gain on disposal of capital assets	-	560	560
Total nonoperating revenues (expenses)	(800,670)	219,473	(581,197)
Income before capital contributions	3,486,613	111,211	3,597,824
Capital contributions	82,443	44,167	126,610
Change in net assets	3,569,056	155,378	3,724,434
Net assets, beginning of year	79,217,232	4,616,861	83,834,093
Net assets, end of year	\$ 82,786,288	\$ 4,772,239	\$ 87,558,527

See Notes to Basic Financial Statements.

City of Waterloo, Iowa

Statement of Cash Flows

Enterprise Funds

Year Ended June 30, 2012

	Sanitary Sewer	Nonmajor - Sanitation	Total
Cash flows from operating activities:			
Receipts from customers and users	\$ 13,065,489	\$ 3,497,631	\$ 16,563,120
Payments to suppliers	(2,957,971)	(1,480,808)	(4,438,779)
Payments to or on behalf of employees	(3,175,279)	(1,371,629)	(4,546,908)
Payment for interfund services used	(692,000)	(451,500)	(1,143,500)
Net cash provided by operating activities	6,240,239	193,694	6,433,933
Cash flows from noncapital financing activities:			
Proceeds from interfund accounts	85,968	-	85,968
Intergovernmental proceeds	56,251	227,132	283,383
Net cash provided by noncapital financing activities	142,219	227,132	369,351
Cash flows from capital and related financing activities:			
Purchase and construction of capital assets	(2,916,314)	(421,145)	(3,337,459)
Proceeds from disposal of capital assets	-	560	560
Proceeds from bonds, loans and notes, net bond issuance costs, discounts and premiums of \$29,543	8,805,457	-	8,805,457
Principal paid on debt	(10,997,500)	-	(10,997,500)
Interest paid on debt	(833,509)	-	(833,509)
Net cash (used in) capital and related financing activities	(5,941,866)	(420,585)	(6,362,451)
Cash flows from investing activities, interest received	15,283	3,329	18,612
Increase in cash and cash equivalents	455,875	3,570	459,445
Cash and cash equivalents, beginning of year	20,593,056	2,754,172	23,347,228
Cash and cash equivalents, end of year	<u>\$ 21,048,931</u>	<u>\$ 2,757,742</u>	<u>\$ 23,806,673</u>
Reconciliation of cash and cash equivalents to statement of net assets:			
Unrestricted cash	\$ 8,584,535	\$ 2,662,682	\$ 11,247,217
Restricted cash	12,464,396	95,060	12,559,456
	<u>\$ 21,048,931</u>	<u>\$ 2,757,742</u>	<u>\$ 23,806,673</u>

(Continued)

City of Waterloo, Iowa

Statement of Cash Flows (Continued)

Enterprise Funds

Year Ended June 30, 2012

	Sanitary Sewer	Nonmajor - Sanitation	Total
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 4,287,283	\$ (108,262)	\$ 4,179,021
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	2,308,301	261,124	2,569,425
(Increase) in accounts receivable	(82,265)	(74,607)	(156,872)
Decrease in inventories and prepaids	13,234	-	13,234
Increase (decrease) in accounts payable	(167,649)	105,215	(62,434)
Increase (decrease) in security deposits	(116,380)	6,291	(110,089)
(Decrease) in accrued liabilities	(68,725)	(23,185)	(91,910)
Increase in other post employment benefits obligation	49,959	18,140	68,099
Increase in compensated absences and deferred compensation	16,481	8,978	25,459
Net cash provided by operating activities	\$ 6,240,239	\$ 193,694	\$ 6,433,933
Schedule of noncash capital and related financing activities:			
Payables for acquisition of capital assets	\$ 839,370	\$ 95,000	\$ 934,370
Capital contributions	82,443	-	82,443
Transfer of capital assets from governmental activities	-	44,167	44,167
Amortization of bond issue costs	22,759	-	22,759
Amortization of discounts and reacquisition costs	64,486	-	64,486

See Notes to Basic Financial Statements.

City of Waterloo, Iowa

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City of Waterloo, Iowa

Notes to Basic Financial Statements

Note 1. Nature of Operations, Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Summary of Significant Accounting Policies

Nature of operations:

The City of Waterloo (City) is a political subdivision of the state of Iowa located in Black Hawk County. It was incorporated in 1868 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the full-time Mayor and seven part-time City Council members elected on a nonpartisan basis. The Mayor is elected for a two-year term. City Council members from five wards plus two at-large are elected for staggered four-year terms. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides sanitary sewer and sanitation (garbage pickup) utilities for its citizens. Through its component unit, Waterloo Water Works, water utility services are also provided.

Reporting entity:

In accordance with Governmental Accounting and Financial Reporting Standards, the basic financial statements include all funds, organizations, agencies, boards, commissions, authorities and material component units. The City 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 City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City 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 City.

These financial statements present the City of Waterloo (the primary government) and its discretely presented component units, the Waterloo Water Works and Waterloo Convention & Visitors Bureau, Inc. Complete financial statements of the Waterloo Water Works component unit can be obtained from the Waterloo Water Works administrative office, 325 Sycamore Street, Waterloo, Iowa. Complete financial statements of the Waterloo Convention & Visitors Bureau, Inc. can be obtained from their office at 313 East 5th Street, Waterloo, Iowa.

Blended component unit: The Waterloo Housing Authority (Authority) is governed by a board that includes all seven members of the City Council plus two members appointed by the Mayor, subject to approval of a majority of the City Council, for a total of nine members. Although the Authority is considered legally separate from the City, it receives administrative support from the various departments within the City's General Fund. Due to the nature of its relationship with the City, the Authority is considered part of the primary government. The Authority is reported as a special revenue fund.

Discretely presented component units:

Waterloo Water Works: The Waterloo Water Works is a component unit that is legally separate from the City, but is financially accountable to the City. The Waterloo Water Works is governed by a three-member board appointed by the City Council and its operating budget is subject to the review of the City Council. The Waterloo Water Works operates on a calendar year-end and prepares its financial statements in accordance with accounting principles generally accepted in the United States of America. Due to the different year-end, the amount reported by the Waterloo Water Works as due to the primary government and the primary government's due from the Waterloo Water Works do not agree by \$54,426.

Notes to Basic Financial Statements

Note 1. Nature of Operations, Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Summary of Significant Accounting Policies (Continued)

Waterloo Convention & Visitors Bureau, Inc.: The Waterloo Convention & Visitors Bureau, Inc. is a nonprofit corporation and a component unit of the City whose purpose is to strengthen the local economy by competitively marketing the area as a destination for conventions, tour groups, sporting events and individual travelers.

The Organization's operations are funded primarily by an allocation of the local hotel/motel tax from the City's local transient guest tax. By ordinance, the City allocates 50 percent of the tax to the Organization.

The Organization is governed by a 15-member Board of Directors. Five members are appointed by the City, five are appointed by the Greater Cedar Valley Chamber of Commerce and the other five are elected by other members of the Organization's Board. Although the City does not appoint the voting majority of the Organization's Board of Directors, the Organization has been determined to be fiscally dependent on the City.

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 City. 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 support. Likewise, the primary government is reported separately from the legally separate Waterloo Water Works and Waterloo Convention & Visitors Bureau, Inc. component units.

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given program or function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program or function. Program/function revenue includes: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given program/function and (2) grants, contributions and other resources that are restricted to meeting the operational or capital requirements of a particular program/function. Taxes 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 and proprietary funds. The focus of fund financial statements is on major funds. Major individual governmental funds and the major enterprise fund are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds. The other enterprise fund is reported in a separate column on the enterprise funds financial statements as a nonmajor fund.

Description of funds: The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance/net assets, revenue and expenditures or expenses, and other financing sources and uses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into categories as follows:

Notes to Basic Financial Statements

Note 1. Nature of Operations, Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Summary of Significant Accounting Policies (Continued)

Governmental Fund Types: Governmental fund types are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are paid; and the difference between governmental fund assets and liabilities, the fund equity, is referred to as “fund balance.” The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following are the City’s governmental fund types:

General fund is used to account for and report all financial resources not accounted for and reported in another fund.

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest on long-term debt.

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The City had the following major governmental funds:

General Fund is used to account for and report all financial resources not accounted for and reported in another fund.

Trust and Agency (Employee Benefits) Special Revenue Fund is required by the Code of Iowa to account for property taxes levied for employee benefits. This fund either pays benefits as expenditures (primarily police and fire pension costs) or transfers cash to the General Fund to reimburse allowable benefits paid from that fund.

Local Option Tax Special Revenue Fund is used to account for resources provided from a 1 percent sales tax approved by the citizens of Waterloo which is restricted for the construction, reconstruction and repair of City streets.

Grants Fund is used to account for resources received for various federal and Iowa funded projects which are not accounted for elsewhere and are restricted to specific programs.

Tax Increment Financing Fund is used to account for the accumulation of resources from tax increment financing projects, payment of contracted rebates and other obligations related to the projects and transfers to the GO Debt Service Fund and/or other funds to reimburse the other funds for expenditures on the projects.

General Obligation Debt Service Fund is required by the Code of Iowa to account for the accumulation of resources for, and payment of, debt service on general obligation long-term debt.

Proprietary Fund Type: Proprietary fund types are used to account for a government’s ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is upon income determination, financial position and cash flows.

Notes to Basic Financial Statements

Note 1. Nature of Operations, Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Summary of Significant Accounting Policies (Continued)

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to that of a private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The City had the following major proprietary fund:

Enterprise Fund: The Sanitary Sewer Fund operates the sewage collection system and wastewater treatment plant.

Fiduciary Fund Type: To account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds.

Metropolitan Transit Agency Fund: This is an Agency Fund used to account for property taxes collected on behalf of the Metropolitan Transit Agency.

Measurement focus and basis of accounting:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Agency funds follow accrual basis of accounting but do not have a measurement focus as they report only assets and liabilities. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue at the same time the related asset is recorded. For reimbursable grants, the asset is recorded as soon as all eligibility requirements imposed by the provider have been met.

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 City considers revenue to be available if it is collected within 60 days of the end of the fiscal year.

Property taxes when levied for, charges for services, intergovernmental revenue (shared revenue, grants and reimbursements from other governments) and interest are considered to be measurable and are recognized as revenue, if available. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures are generally 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 recorded 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 City funds certain programs by a combination of specific cost-reimbursement grants and general revenue. It is the City's policy to first apply cost-reimbursement grant resources to such programs and then by general revenue.

Notes to Basic Financial Statements

Note 1. Nature of Operations, Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Summary of Significant Accounting Policies (Continued)

The enterprise funds of the City apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. The City has elected not to follow FASB guidance issued subsequent to November 30, 1989.

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 City's enterprise funds are charges to customers for services. Operating expenses include the costs of services and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Direct interfund activity has been eliminated from the government-wide financial statements. Indirect interfund activity is reported in a separate column on the statement of activities.

Budgets and budgetary accounting: The budgetary comparison and related disclosures are reported as required supplementary information.

Summary of significant accounting policies:

The significant accounting policies followed by the City include the following:

Cash, pooled investments and cash equivalents: The cash balances of most City funds are pooled and deposited into interest-bearing demand deposit accounts. Interest earned on investments is allocated among funds in the ratio of cash provided by the fund unless otherwise provided by law. Interest earned by the Road Use Tax Fund is allocated to the General Fund. Investments consist of nonnegotiable certificates of deposit which are stated at cost and deposits in Iowa Public Agency Investment Trust money market accounts which are stated at amortized cost.

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

Receivables and payables: Receivables are reported net of any allowance for uncollectible accounts. As of June 30, 2012, the General Fund had allowances for uncollectible customer accounts totaling \$812,894.

Property taxes receivable are recognized on the levy or lien date, which is the date that the tax asking is certified by the City to the County Board of Supervisors. Current year delinquent property taxes receivable represent unpaid taxes from the current year. The succeeding year property taxes receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 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 and will not be recognized as revenue until the year for which it is levied.

Notes to Basic Financial Statements

Note 1. Nature of Operations, Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Summary of Significant Accounting Policies (Continued)

Property tax revenue which became due and collectible in September and March of the fiscal year with a 1½ percent per month penalty for delinquent payments; was based on January 1, 2010 assessed property valuations; was for the tax accrual period July 1, 2011 through June 30, 2012; and reflected the tax asking contained in the budget certified to the County Board of Supervisors in March 2011.

Special assessments are levied against certain property owners and become liens against the property benefited by the improvement. Special assessments receivable consist of current assessments which are due within one year, delinquent assessments remaining unpaid after the due date, and deferred, uncollected assessments which have been levied, but are not due within one year.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services.

Loans and notes consist of amounts advanced to private individuals or organizations. Collections of principal and interest from loans and notes made from federal funds are program income of the federal program when received in cash.

Due from other governments consists of grants, shared revenue and amounts collected by other governments on behalf of the City.

Inventories and prepaids: Inventories are valued at cost using the first-in/first-out (FIFO) method. The cost of governmental fund-type inventories are recorded as expenditures when purchased. Inventories and prepaids recorded in the governmental fund types do not reflect current available resources; therefore, an equivalent portion of fund balance is nonspendable.

Prepaids consist primarily of a deposit for insurance deductibles and premiums paid in advance.

Restricted assets: Certain assets of the governmental funds are classified as restricted assets because their use is completely restricted by donors, bond indentures, contracts or grant agreements.

Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. The "revenue, operations and maintenance" account is used to report resources set aside to subsidize potential deficiencies from the City's operation that could adversely affect debt service payments. The "revenue bond debt sinking" account is used to segregate resources accumulated for debt service payments over the next 12 months. The "revenue bond debt reserve" account is used to segregate 10 percent of the original face value of bond issues which are still outstanding to provide payments due if the "debt sinking" balance is not adequate. The "revenue bond improvements" account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements. The "project" account is used to report those proceeds of bond issuances that are restricted for use in construction.

Bond discount, premium and issuance costs: In the government-wide financial statements and proprietary fund types in the fund financial statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

Notes to Basic Financial Statements

Note 1. Nature of Operations, Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Summary of Significant Accounting Policies (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Original issuance costs of general obligation bonds repaid by the sanitary sewer enterprise fund and sanitary sewer revenue bonds totaling \$185,514 are amortized using the effective interest method over the life of the bonds. Accumulated amortization as of June 30, 2012 was \$45,172. Amortization of bond issue costs was \$22,759 for 2012.

Original discounts of \$109,162 on general obligation bonds repaid by the sanitary sewer enterprise fund outstanding as of June 30, 2012 are being amortized using the effective interest method over the life of the bonds. Accumulated amortization as of June 30, 2012 was \$19,544. Discount amortization for 2012, which was added to interest expense, was \$7,517.

Original premiums of \$88,394 on general obligation bonds repaid by the sanitary sewer enterprise fund outstanding as of June 30, 2012 are being amortized using the effective interest method over the life of the bonds. Accumulated amortization as of June 30, 2012 was \$14,220. Premium amortization for 2012, which was added to interest expense, was \$14,220.

Net reacquisition costs of refunded bonds: Reacquisition costs of \$205,305 incurred as a result of the July 2011 sewer revenue bond refunding transactions and \$135,176 as a result of the June 30, 2007, 2009 and 2010 general obligation bonds repaid by the sanitary sewer enterprise fund are being amortized over the lives of the refunding issues using the effective interest method. Accumulated amortization as of June 30, 2012 was \$113,806. Reacquisition amortization for 2012, including amortization of prior reacquisition costs, which was added to interest expense, was \$71,190.

Interest capitalized: Construction period interest for business-type activities is capitalized. For projects paid with taxable bonds, interest is capitalized at the amount of cash paid at the effective interest rate to the earlier of the date the asset is placed in service or year-end. Interest on tax-exempt debt used for construction is capitalized at the amount incurred, offset by earnings realized by investing debt proceeds until needed. \$42,608 interest expense was capitalized during the year ended June 30, 2012.

Capital assets: Capital assets 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, other than infrastructure, are defined by the City as assets with an initial, individual cost in excess of \$5,000 and estimated useful lives in excess of one year. Infrastructure is defined by the City as assets available for public use, other than buildings, and having a cost of \$50,000 or more.

City of Waterloo, Iowa

Notes to Basic Financial Statements

Note 1. Nature of Operations, Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Summary of Significant Accounting Policies (Continued)

Depreciation is computed using the straight-line method over the estimated useful life of the asset with no amount recorded in the year placed in service and a full year in the year removed from service. Estimated useful lives are as follows:

	Years
Governmental activities:	
Buildings and improvements	10 - 40
Infrastructure	15 - 100
Furniture and equipment	3 - 20
Vehicles, machinery and equipment	3 - 25
Software	5
Assets under capital lease	10 - 15
Business-type activities:	
Buildings	15 - 50
Improvements other than buildings	50
Furniture and equipment	5 - 20
Vehicles, machinery and equipment	5 - 10
Software	5
Discretely presented component units:	
Buildings and improvements	8 - 40
Water supply and distribution systems	10 - 99
Meters and equipment	5 - 63
Machinery and equipment	5 - 26
Leasehold improvements	5 - 39

The City's collection of works of art, library books and other similar assets are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to City policy that requires proceeds from the sale of these items to be used to acquire other collection items.

Deferred and unearned revenue: Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the succeeding year's property tax receivable that will not be recognized as revenue until the year for which it was levied and the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

Unearned revenue in the statement of net assets consists of the succeeding year's property tax receivable that will not be recognized as revenue until the year for which it is levied and unearned grant proceeds.

Interfund transactions: Transactions among City funds that would be treated as revenues and expenditures or expenses if they involved organizations external to City government are accounted for as revenues and expenditures or expenses in the funds involved.

Transactions which constitute reimbursements to a fund for expenditures initially made from it which are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the reimbursed fund.

Notes to Basic Financial Statements

Note 1. Nature of Operations, Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Summary of Significant Accounting Policies (Continued)

Transactions, which constitute the transfer of resources from a fund receiving revenues to a fund through which the revenues are to be expended, are separately reported in the respective fund's operating statements.

Activity between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as "due to/from other funds" in the fund financial statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Compensated absences: City ordinances and labor contracts with the City call for the accumulation of vacation, compensatory time and sick leave for subsequent use or for payment upon termination or retirement. During 2001, the City began offering an early sick leave payout option for certain employees. Qualifying employees can elect to receive 60 percent of the time in their frozen sick leave bank over a five-year period prior to their retirement or termination of employment. Vacation, compensatory time and sick pay are accrued when incurred in the government-wide and the proprietary funds statements and reported as a liability. Matured compensated absences, for example, as a result of employee retirements and resignations, are considered due and expected to be liquidated with expendable available financial resources and are reported as an expenditure and a fund liability of the respective governmental fund. Governmental fund liabilities for unmatured compensated absences are not reported in the fund financial statements.

Long-term liabilities: In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities.

In the governmental fund financial statements, the face amount of long-term debt issued is reported as an other financing source.

Fund balance: In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable: Amounts which cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

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 specific purposes pursuant to constraints formally imposed by the City Council through resolution approved prior to year-end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same action it employed to commit those amounts.

Assigned: Amounts constrained by the City's intent to use them for a specific purpose. The authority to assign fund balance has been delegated by the City Council to the Chief Financial Officer in accordance with the City's Fund Balance and Reserve Policy.

Unassigned: All amounts not included in other spendable classifications. The General Fund is the only fund that would report a positive amount in unassigned fund balance.

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

Notes to Basic Financial Statements

Note 1. Nature of Operations, Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Summary of Significant Accounting Policies (Continued)

Net assets: Net assets represent the difference between assets and liabilities. Amounts reported as invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Unspent debt proceeds for the various capital project GO Bonds Funds are \$13,969,330 and the Sanitary Sewer enterprise fund is \$10,100,129. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The government-wide statement of net assets reports \$31,552,558 of restricted net assets of which \$11,212,506 is restricted by enabling legislation for debt service, employee benefits, self-funded health insurance, library, tourism promotion and public access television.

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Indirect allocations: Operating funds, departments and activities receive services from supporting funds, departments and activities. Annually, management estimates the value of those services and records applicable indirect allocations. Activities related to federal grant programs have not been included in the indirect cost calculations, but are reported within the function the grant serves.

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 expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Cash and Investments

Interest rate risk: The City's policy allows the operating funds to be invested in instruments authorized by the City's investment policy that mature within 397 days and funds not identified as operating funds to be invested with maturities longer than 397 days. However, all investments of the City shall have maturities that are consistent with the liquidity needs of the City.

As of June 30, 2012, the City had investments in the Iowa Public Agency Investment Trust (IPAIT) which were valued at an amortized cost of \$5,177,217 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City's investment on IPAIT is not subject to interest rate risk. Also, the City had investments in repurchase agreements valued at \$19,140,000, maturing nightly.

The discretely presented Waterloo Water Works component unit's certificates of deposit are purchased with maturities of 12 to 28 months and yields of 1.49 percent to 2.43 percent. Certain certificates of deposit are restricted to comply with debt covenants and to secure customer deposits.

City of Waterloo, Iowa

Notes to Basic Financial Statements

Note 2. Cash and Investments (Continued)

The discretely presented Waterloo Water Works component unit's deposits in the IPAIT were valued at an amortized cost of \$1,527,006, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk: In accordance with the City's investment policy, the City may invest in interest bearing savings accounts, interest bearing money market accounts, and interest bearing checking accounts at any bank, savings and loan associations or credit union in the state of Iowa, obligations of the United States government, its agencies and instrumentalities, certificates of deposit and other evidences of deposit at federally insured Iowa depository institutions, IPAIT, prime bankers' acceptances that mature within 270 days of purchase and are eligible for purchase by a Federal Reserve Bank, commercial paper or other short-term corporate debt that matures within 270 days of purchase and is rated within the two highest classifications, as established by at least one of the standard rating services, repurchase agreements, open-end management investment company organized in trust form, registered with Securities & Exchanges Commission. The policy does not allow the City to invest in reverse repurchase agreements and futures and options contracts.

The investment in IPAIT is not subject to credit risk. As of June 30, 2012, the City's investments in repurchase agreements had a credit rating of AAA by Moody's and Standard & Poor's.

Concentration of credit risk: The City's investment policy is to diversify its investment portfolio to eliminate the risk of loss resulting from overconcentration of assets in a specific maturity, a specific issuer or a specific class of securities. However, the policy limits the City from investing in prime bankers' acceptances or commercial paper of more than 10 percent of the investment portfolio and more than 5 percent of the investment portfolio with a single issuer at the time of purchase. In addition, no more than 5 percent of all amounts invested in commercial paper and other short-term corporate debt shall be invested in paper and debt rated in the second highest classification at the time of purchase. As of June 30, 2012, the City's investments were not subject to concentration of credit risk.

Custodial credit risk: For deposits, this is the risk that in the event of bank failure, the City'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 City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's deposits as of June 30, 2012 were entirely covered by federal depository insurance, National Credit Union 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 ensure that there will be no loss of public funds. In addition, the City had no investments subject to custodial credit risk.

City of Waterloo, Iowa

Notes to Basic Financial Statements

Note 3. Leasing Activities

Airport: The Waterloo Municipal Airport has entered into various operating leases with airlines, fixed base operators, auto lease companies, the airport restaurant and hangar tenants, as well as farm airport land. These agreements range from month-to-month leases to longer-term leases with various specified terms. Some of these lease agreements contain cancellable conditions which eliminate any future guaranteed rentals or are contingent upon income produced by the lessee. The following is a schedule by years of the future minimum lease rentals to be received under these leases as of June 30:

During the year ending June 30:

2013	\$	421,497
2014		240,456
2015		23,444
2016		5,902
Total future minimum lease rentals to be received		<u>\$ 691,299</u>

Board of Regents, State of Iowa: The City has entered into a lease agreement with the Board of Regents, State of Iowa, for the former Chicago Great Western Depot building. The term of the lease is from August 21, 2001 through August 20, 2016 at a rate of \$6,035 per month. The following is a schedule by years of the future minimum lease rentals to be received under the lease as of June 30:

During the year ending June 30:

2013	\$	72,420
2014		72,420
2015		72,420
2016		72,420
2017		12,070
Total future minimum lease rentals to be received		<u>\$ 301,750</u>

Waterloo Hotel Equities, LLC d/b/a Ramada Waterloo Civic and Convention Center: The City has entered into a lease agreement with the Waterloo Hotel Equities, LLC d/b/a Ramada Waterloo Civic and Convention Center (Hotel) for the use of the Five Sullivan Brothers Convention Center and City parking facilities. The term of the lease is from May 23, 2005 through December 31, 2019. The rental rates are based on the gross income and sales of the Five Sullivan Brothers Convention Center, also known as the Ramada Inn Convention Center (Center) paid on a monthly basis. The amount of revenue recognized for the year ended June 30, 2012 is \$38,589. The lease includes a management agreement with the Hotel for the management of the Center.

City of Waterloo, Iowa

Notes to Basic Financial Statements

Note 4. Loans and Notes

General Fund:

Rath/Urban Development Action Grant (UDAG) Loans: In prior years, the City received federal aid in the form of UDAGs to assist local businesses, including Rath Packing Company (Rath). Rath subsequently liquidated and the City received real estate and cash as a result of the liquidation. A portion of the cash has been loaned to local businesses to assist in their economic development:

Economic development revolving loans: From time-to-time, the City has made economic development loans with repayment terms ranging from 6 months to 15 years and interest ranging from none to 6.5 percent.

The ending balance on these loans as of June 30, 2012 was \$27,500. Interest received by the City on Rath/UDAG loans is recorded in the General Fund as investment income.

Special Revenue Funds:

Community Development Block Grant (CDBG) Loans:

Low-interest loans: The City has four low-interest rehabilitation and other loans due as of June 30, 2012. The City serviced loans, with a balance of \$13,998, are estimated to be uncollectible. Collections of CDBG loans are considered grant program income which is reported in the Special Revenue Fund (CDBG) as charges for services as received.

Low-income housing loans: The City has provided seven loans for low-income housing projects, five of which have a below-market interest rate. All have minimal payments required each year until maturity. Maturities range from September 2018 to August 2024. Cash received is program income and considered to be charges for services. Given the nature and collection history of the loans, the City has determined these amounts are uncollectible.

Forgivable loans: The City, through its CDBG, HOME program, Economic Development Initiative program, Lead Paint Removal grant, federal and state Jumpstart funds and lowans Helping lowans funds, provides forgivable rehabilitation loans to low-income households. The loans are forgiven on a sliding scale over a five-year period, provided the home is not sold or abandoned. If the home is sold or abandoned, the City's lien against the property prevents a clear title transfer unless the unforgiven portion of the note is satisfied. As of June 30, 2012, the City had made 1,500 such loans totaling \$25,933,087. The loan balances are considered forgivable and/or uncollectible by the City given the nature and terms of the loans therefore, have not been recorded as assets on the balance sheet.

City of Waterloo, Iowa

Notes to Basic Financial Statements

Note 5. Interfund Activity

The composition of interfund balances as of June 30, 2012 was as follows:

	Due From	Due To
Major governmental funds:		
General	\$ 7,101,605	\$ -
Local option sales tax	13,598	-
Grants	-	5,273,198
Tax increment financing	-	1,116,222
General obligation debt service	-	996
Nonmajor governmental funds	685,381	1,292,672
Major Enterprise Fund, sanitary sewer	-	129,197
Nonmajor Enterprise Fund, sanitation	11,701	-
	<u>\$ 7,812,285</u>	<u>\$ 7,812,285</u>

Interfund balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made.

Due to/from primary government and component units:

Due to Enterprise Funds:	
Sanitary sewer	\$ 782,899
Sanitation	331,408
Due from Waterloo Water Works	1,114,307
Waterloo Water Works - due to primary government	1,168,733
Difference	<u>\$ (54,426)</u>

The difference in the above amounts of \$54,426 results from the different year ends of the entities as described in Note 1.

Due to Waterloo Convention & Visitors Bureau, Inc. from General Fund	<u>\$ 312,830</u>
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The following is a schedule of transfers as included in the basic financial statements of the City:

	Transfers In	Transfers Out
Major governmental funds:		
General	\$ 8,876,141	\$ 1,825,612
Trust and agency	-	8,787,641
Tax increment financing	88,500	3,593,607
General obligation debt service	2,925,643	-
Nonmajor governmental funds	2,316,576	-
	<u>\$ 14,206,860</u>	<u>\$ 14,206,860</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

City of Waterloo, Iowa

Notes to Basic Financial Statements

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance June 30, 2011	Additions	Deletions	Transfers	Ending Balance June 30, 2012
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 37,545,929	\$ 1,919,290	\$ -	\$ -	\$ 39,465,219
Land held for redevelopment	7,084,373	1,752,045	2,823,488	-	6,012,930
Construction-in-progress	10,337,694	19,917,190	48,618	(18,422,231)	11,784,035
Total capital assets, not being depreciated	54,967,996	23,588,525	2,872,106	(18,422,231)	57,262,184
Capital assets, being depreciated:					
Buildings and improvements	92,663,783	654,933	11,308	2,005,551	95,312,959
Infrastructure	274,719,053	388,559	-	16,179,122	291,286,734
Vehicles, machinery, furniture and equipment	24,685,602	2,193,039	650,878	(88,378)	26,139,385
Software	254,865	-	-	248,157	503,022
Total capital assets, being depreciated	392,323,303	3,236,531	662,186	18,344,452	413,242,100
Less accumulated depreciation for:					
Buildings and improvements	44,431,002	2,977,343	7,636	-	47,400,709
Infrastructure	92,732,529	8,088,633	-	-	100,821,162
Vehicles, machinery, furniture and equipment	15,399,019	1,601,910	596,612	(35,704)	16,368,613
Software	150,442	36,354	-	2,092	188,888
Total accumulated depreciation	152,712,992	12,704,240	604,248	(33,612)	164,779,372
Total capital assets, being depreciated, net	239,610,311	(9,467,709)	57,938	18,378,064	248,462,728
Governmental activities capital assets, net	\$ 294,578,307	\$ 14,120,816	\$ 2,930,044	\$ (44,167)	\$ 305,724,912

City of Waterloo, Iowa

Notes to Basic Financial Statements

Note 6. Capital Assets (Continued)

	Beginning Balance June 30, 2011	Additions	Deletions	Transfers	Ending Balance June 30, 2012
Business-Type Activities					
Capital assets, not being depreciated:					
Land	\$ 348,055	\$ -	\$ -	\$ -	\$ 348,055
Construction-in-progress	1,449,380	3,581,039	-	(1,782,723)	3,247,696
Total capital assets, not being depreciated	1,797,435	3,581,039	-	(1,782,723)	3,595,751
Capital assets, being depreciated:					
Buildings	68,507,219	-	-	-	68,507,219
Improvements other than buildings	40,702,195	82,443	-	1,782,723	42,567,361
Vehicles, machinery, furniture and equipment	6,928,385	690,790	18,289	77,779	7,678,665
Software	19,940	-	-	-	19,940
Total capital assets, being depreciated	116,157,739	773,233	18,289	1,860,502	118,773,185
Less accumulated depreciation for:					
Buildings	16,503,779	1,369,157	-	-	17,872,936
Improvements other than buildings	11,596,972	814,045	-	-	12,411,017
Vehicles, machinery, furniture and equipment	5,183,651	382,235	18,289	33,612	5,581,209
Software	-	3,988	-	-	3,988
Total accumulated depreciation	33,284,402	2,569,425	18,289	33,612	35,869,150
Total capital assets, being depreciated, net	82,873,337	(1,796,192)	-	1,826,890	82,904,035
Business-type activities capital assets, net	\$ 84,670,772	\$ 1,784,847	\$ -	\$ 44,167	\$ 86,499,786

City of Waterloo, Iowa

Notes to Basic Financial Statements

Note 6. Capital Assets (Continued)

	Beginning Balance December 31, 2010	Additions	Deletions	Transfers	Ending Balance December 31, 2011
Discretely Presented Component Unit - Waterloo Water Works Capital Assets					
Capital assets, not being depreciated:					
Land	\$ 270,896	\$ -	\$ -	\$ -	\$ 270,896
Assets not in service	567,816	-	104,413	-	463,403
Construction-in-progress	146,966	700,247	746,384	-	100,829
Total capital assets, not being depreciated	985,678	700,247	850,797	-	835,128
Capital assets, being depreciated:					
Buildings and improvements	1,759,882	-	5,591	-	1,754,291
Water supply and distribution systems	22,875,271	883,991	-	-	23,759,262
Meters and equipment	1,472,263	-	3,307	-	1,468,956
Machinery and equipment	1,778,798	73,407	90,301	-	1,761,904
Total capital assets, being depreciated	27,886,214	957,398	99,199	-	28,744,413
Less accumulated depreciation for:					
Buildings and improvements	674,745	28,274	3,646	-	699,373
Water supply system	2,399,222	144,170	-	-	2,543,392
Distribution system	3,414,505	256,745	-	-	3,671,250
Meters and equipment	748,876	37,957	2,458	-	784,375
Machinery and equipment	1,178,436	83,269	73,625	-	1,188,080
Total accumulated depreciation	8,415,784	550,415	79,729	-	8,886,470
Total capital assets, being depreciated, net	19,470,430	406,983	19,470	-	19,857,943
Net discretely presented component unit - Waterloo Water Works capital assets, net	\$ 20,456,108	\$ 1,107,230	\$ 870,267	\$ -	\$ 20,693,071

	Beginning Balance June 30, 2011	Additions	Deletions	Transfers	Ending Balance June 30, 2012
Discretely Presented Component Unit - Waterloo Convention & Visitors Bureau, Inc.					
Capital assets, being depreciated:					
Equipment	\$ 84,046	\$ 2,799	\$ -	\$ -	\$ 86,845
Leasehold improvements	125,924	-	-	-	125,924
Total capital assets, being depreciated	209,970	2,799	-	-	212,769
Less accumulated depreciation	59,421	17,553	-	-	76,974
Total capital assets, being depreciated, net	\$ 150,549	\$ (14,754)	\$ -	\$ -	\$ 135,795

City of Waterloo, Iowa

Notes to Basic Financial Statements

Note 6. Capital Assets (Continued)

Depreciation expense was charged by the City as follows for the year ended June 30, 2012:

Governmental activities:	
Public safety	\$ 805,277
Public works	10,265,685
Health and social services	-
Culture and recreation	1,332,215
Community and economic development	234,030
General government	67,033
Total governmental activities	12,704,240
Business-type activities:	
Sanitary sewer	2,308,301
Sanitation	261,124
Total business-type activities	2,569,425
Total primary government	\$ 15,273,665
Component unit - Waterloo Water Works	\$ 550,415
Component unit - Waterloo Convention & Visitors Bureau, Inc.	\$ 17,553

Note 7. Deferred Compensation Plans

Deferred frozen sick leave payout: Retirees have the option of receiving their frozen sick leave (Note 8) payout immediately or receiving it as an annuity over 60 months. If the annuity option is selected, interest is paid to the retiree at the same rate as the City pays on the general obligation bonds last issued before the retirement date. As of June 30, 2012, seven retirees were receiving annuitized payouts in Governmental funds and one retiree was receiving annuitized payouts in an Enterprise fund, the present value of which was \$21,715, attributable to governmental activities and \$12,197, attributable to business-type activities.

During 2001, the City began offering an early sick leave payout option. Qualifying employees can elect to receive 60 percent of the balance in their frozen sick leave bank over a 52-month period prior to their retirement or termination of employment. As of June 30, 2012, all employees had received their payments and no liability was recorded.

Deferred compensation is reported in business-type activities as accrued liabilities and in the governmental-type activities as a noncurrent liability.

Notes to Basic Financial Statements

Note 8. Compensated Absences

City employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination or retirement. A calendar year is primarily used for the calculation of vacation pay benefits while sick leave utilizes the City's fiscal year. Vacation days for most bargaining unit employees must be taken or paid during the calendar year with limited exceptions. Nonbargaining unit employees may carry forward up to 10 days vacation with proper approval. Upon termination, employees receive payment for unused vacation plus a payment for vacation hours accrued from January through the termination date. As of June 30, 2012, there was \$2,277,528 accrued for vacation.

Prior to July 1, 1984, sick leave was allowed to accumulate to a maximum of 240 days, except for police and fire personnel who could accumulate a maximum of 260 days. Any unused days as of July 1, 1984 were accumulated into a frozen sick leave bank. The days frozen in the bank are paid upon use, termination or retirement (except for library employees who will only be paid upon use). If paid upon retirement, the amount due to employees is computed as the amount equal to 60 percent of the total accumulated hours times the employee's current pay rate paid to employees. Retirees have the option of receiving the payout immediately or receiving it as an annuity over 60 months. As discussed in Note 7, active employees could elect to receive a payout of 60 percent of their frozen sick dollars beginning in July 2001. As of June 30, 2012, there was \$240,637 accrued for the frozen sick leave bank.

After July 1, 1984, sick leave is allowed to accumulate up to 12 days per year. At the end of the year, 25 percent of any unused sick leave is payable to the employee as a bonus and the balance of 75 percent of the unused sick leave is added to the employee's sick leave storage bank for future use. The days accumulated in the bank after July 1, 1984 are not payable upon termination or retirement. Certain Fire Department employees are eligible to receive pay-outs of 75 percent of their unused sick leave, with the balance of 25 percent of their unused leave added to their sick leave storage bank. As of June 30, 2012, \$130,380, equivalent to 25 percent of unused sick leave subject to payout, has been accrued.

Certain employees can elect either to be paid overtime compensation or to accrue the hours as compensatory time, defined as additional time off from regular hours. Employees are required to be paid for these services upon termination of employment. Maximum hours eligible to be used later as compensatory time are limited by law and labor contracts. Governmental funds do not recognize these accumulations as expenditures until paid. As of June 30, 2012, there was \$1,012,786 accrued for unused compensatory time.

Employees are also eligible to receive pay-outs of a portion of unused casual leave. The City accrued a total of \$48,183 for unused casual leave earned during the fiscal year ended June 30, 2012.

The sick leave bonus and accrued casual pay are reported as compensated absences in the applicable fund which includes \$163,895 in governmental funds, as the liabilities are considered matured and are expected to be liquidated with expendable available financial resources. Frozen sick leave, vacation pay and compensatory time liabilities are accrued when incurred in the government-wide and proprietary fund statements and reported as a liability.

City of Waterloo, Iowa

Notes to Basic Financial Statements

Note 9. Long-Term Liabilities

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2012:

	June 30, 2011	Increases and Issues	Decreases and Retirements	June 30, 2012	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 65,483,600	\$ 10,940,000	\$ 8,252,500	\$ 68,171,100	\$ 8,857,200
Loans and notes	2,806,907	-	695,707	2,111,200	324,848
Deferred compensation	43,628	-	21,914	21,714	9,275
Compensated absences	3,325,805	3,763,921	3,666,039	3,423,687	2,676,731
Subtotal	71,659,940	14,703,921	12,636,160	73,727,701	11,868,054
Unamortized discounts and reacquisition costs	(126,143)	(23,039)	(6,954)	(142,228)	-
Bond premium	415,362	147,504	15,968	546,898	-
Total long-term liabilities, governmental activities	71,949,159	14,828,386	12,645,174	74,132,371	11,868,054
Business-type activities:					
General obligation bonds	20,106,400	2,550,000	1,757,500	20,898,900	2,077,800
Revenue bonds	7,655,000	6,285,000	9,240,000	4,700,000	1,585,000
Deferred compensation	15,172	380	3,356	12,196	3,059
Compensated absences	255,023	306,901	278,466	283,458	233,113
Subtotal	28,031,595	9,142,281	11,279,322	25,894,554	3,898,972
Unamortized discounts and reacquisition costs	(337,439)	(224,061)	245,207	(316,293)	-
Bond premium	34,788	53,606	14,220	74,174	-
Total long-term liabilities, business- type activities	\$ 27,728,944	\$ 8,971,826	\$ 11,538,749	\$ 25,652,435	\$ 3,898,972

Compensated absences attributable to governmental activities are generally liquidated by the General Fund.

The City issues bonds and notes primarily to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and notes have been issued for governmental and business-type activities and to refund debt. Revenue bonds have been issued to fund the acquisition and construction of sanitary sewer facilities and to refund prior general obligation and revenue debt.

General obligation bonds and notes are direct obligations and pledge the full faith and credit of the City. Revenue bonds are the obligations of the Sanitary Sewer Enterprise Fund and are generally payable solely from the revenue of the Sanitary Sewer Enterprise Fund. Bonds generally are issued as 15- to 20-year serial bonds.

On June 28, 2012, the City issued \$8,040,000 in General Obligation Bonds, Series 2012A maturing June 1, 2013 through June 1, 2027 with interest rates ranging from 2 percent to 2.3 percent. Reasons for issuance were to finance certain capital improvements, equipment and vehicle acquisitions and urban renewal projects in the City and pay a portion of the costs of issuance of the Bonds.

City of Waterloo, Iowa

Notes to Basic Financial Statements

Note 9. Long-Term Liabilities (Continued)

On June 28, 2012, the City issued \$5,450,000 in General Obligation Refunding Bonds, Series 2012B maturing June 1, 2013 through June 1, 2020 with interest rates ranging from 0.35 percent to 1.35 percent to refund \$2,300,000 of the outstanding General Obligation Bonds, Series 2003A with interest rates from 2 percent to 3 percent and \$3,050,000 of the outstanding General Obligation Bonds, Series 2005A with interest rates from 3 percent to 4 percent. Proceeds were held by the City as of June 30, 2012 as they had not yet been placed in an irrevocable escrow account. Subsequent to year-end, the defeased bonds were paid off in July 2012.

The City completed the current refunding to reduce its total debt service payments over the next eight years by \$490,972 and to obtain an economic gain (difference between the present values of old and new debt service payments) of \$472,688.

The City's outstanding general obligation long-term debt is as follows:

Issue Date	Purpose	Interest Rates	Outstanding June 30, 2012
April 1998	Airport hanger	5.400% - 5.750%	\$ 280,000
June 2002	Taxable	4.000 - 6.000	425,000
June 2003	Various	2.000 - 3.000	2,300,000
June 2003	Taxable	3.750 - 4.900	360,000
June 2005	Various	3.000 - 4.000	3,050,000
June 2005	Taxable	4.000 - 5.000	1,210,000
June 2006	Various	3.800 - 4.000	4,775,000
June 2006	Taxable	5.625 - 5.850	1,450,000
June 2007	Various	4.000 - 4.500	11,095,000
June 2007	Refunding	4.000	1,505,000
June 2007	Taxable	5.400 - 5.600	670,000
June 2008	Various	3.500 - 3.900	5,295,000
June 2008	Taxable	5.000	1,935,000
June 2009	Refunding	1.000 - 5.000	3,680,000
June 2009	Taxable	1.750 - 5.750	6,895,000
June 2010	Refunding	1.000 - 2.450	3,840,000
June 2010	Taxable	1.000 - 5.000	9,625,000
June 2011	Refunding	2.000 - 4.000	8,685,000
June 2011	Taxable	0.600 - 4.600	8,505,000
June 2012	Taxable	2.000 - 2.300	8,040,000
June 2012	Refunding	0.350 - 1.350	5,450,000
Total			<u>\$ 89,070,000</u>

City of Waterloo, Iowa

Notes to Basic Financial Statements

Note 9. Long-Term Liabilities (Continued)

Annual debt service on general obligation and revenue bonds as of June 30, 2012 are as follows:

	GO Debt Service General Obligation Bonds			
	Principal	Interest		
<u>Year ending June 30:</u>				
2013	\$ 8,857,200	\$ 2,269,511		
2014	8,653,500	2,019,689		
2015	8,599,200	1,756,628		
2016	7,944,000	1,489,628		
2017	7,478,200	1,235,602		
2018 - 2022	20,852,000	3,045,322		
2023 - 2027	5,787,000	504,209		
	<u>\$ 68,171,100</u>	<u>\$ 12,320,589</u>		

	Sanitary Sewer Enterprise General Obligation Bonds		Sanitary Sewer Enterprise Revenue Bonds	
	Principal	Interest	Principal	Interest
<u>Year ending June 30:</u>				
2013	\$ 2,077,800	\$ 720,296	\$ 1,585,000	\$ 74,883
2014	2,231,500	664,854	1,205,000	54,401
2015	2,605,800	598,854	1,195,000	38,703
2016	2,081,000	522,109	575,000	17,413
2017	1,841,800	458,923	140,000	4,200
2018 - 2022	6,833,000	1,422,522	-	-
2023 - 2027	3,228,000	317,679	-	-
	<u>\$ 20,898,900</u>	<u>\$ 4,705,237</u>	<u>\$ 4,700,000</u>	<u>\$ 189,600</u>

The City has pledged future sewer customer revenues, net of specified operating expenses, to repay \$21,235,000 in sewer system revenue bonds issued August 2004 and \$6,285,000 in sewer system refunding revenue bonds issued July 2011. Proceeds from the bonds issued August 2004 were used to construct improvements to the sewer plant. Proceeds from the bonds issued July 2011 were used to currently refund the 2004 bonds and pay costs of issuance on the 2011 bonds. The bonds are payable solely from sewer customer net revenues and are payable through 2017. Annual principal and interest payments on the bonds are expected to require less than 90 percent of net revenues in any one year of the life of the bond. The total principal and interest remaining to be paid on the bonds is \$4,889,600. Principal and interest paid for the current year and total customer net revenues were \$1,655,847 and \$7,485,434, respectively.

The resolutions providing for the issuance of revenue bonds include the following covenants:

1. The bonds will only be redeemed from the future earnings of the sewer system and the bondholders hold a lien on the future earnings.
2. Sufficient monthly transfers shall be made to the sewer revenue bond and interest sinking account for the purpose of making the bond principal and interest payments when due.
3. Monthly transfers will be made to establish a sewer revenue debt reserve fund. (The minimum required is currently \$2,123,500). The amounts shall be used solely for the purpose of paying principal or interest on the bonds when insufficient money is available in the sinking fund. Whenever it shall become necessary to use the funds in the debt reserve fund, monthly payments shall be established to restore the funds used within a three-year period.

Notes to Basic Financial Statements

Note 9. Long-Term Liabilities (Continued)

4. Monthly transfers of \$20,000 shall be made to the sewer improvement fund until the fund equals or exceeds \$450,000. Amounts in the improvement fund not otherwise specially limited by provisions of the bond resolution shall first be used for the purpose of paying principal or interest on the bonds when there shall be insufficient money in the sinking fund and the reserve fund, to pay the cost of extraordinary maintenance or repairs, renewals and replacements not included in the annual budget of revenue and current expenses, payment of rentals on any part of the system or payments due for any property purchased as a part of the system and for capital improvements to the system. Whenever it becomes necessary to use the improvement fund, the monthly payments required shall be continued or resumed until the fund is restored to the required minimum balance.
5. The City will cause to be kept proper books and accounts adapted to the system and in accordance with accounting principles generally accepted in the United States of America, and will cause the books and accounts to be audited annually not later than 270 days after the end of each fiscal year by an independent auditor.
6. The City will faithfully and punctually perform all duties with reference to the Sewer Enterprise required by the Constitution and laws of the state of Iowa.
7. The City will establish rates to allow net revenue to meet or exceed 125 percent of debt service requirements for the year. For the year ended June 30, 2012, sewer net revenue was 404 percent of sewer revenue bond debt service.

Loans and notes: The City, through its blended component unit, Waterloo Housing Authority, is indebted to the Federal Financing Bank (FFB) for \$295,144 from the purchase of the Ridgeway Towers housing complex. The debt is scheduled to mature November 1, 2015. The United States Department of Housing and Urban Development pays interest and principal of \$86,364, annually, directly to FFB. The City reports the payment transaction in the GO Debt Service Fund.

During November 1996, to obtain funding for promoting Midport America, the City's airport area tax increment financing district, the City borrowed \$100,000 from Basic Materials Corp. Interest, at 3 percent, is due on the loan each June 1. Principal is to be repaid as land in the district it is marketed; however, the City intends to repay the loan at \$10,000 per year until repaid. During the year ended June 30, 2012, the City paid principal of \$10,000 plus interest of \$300 on the loan. Payments are made from the TIF Debt Service Fund. As of June 30, 2012, the unpaid principal was \$0.

During the year ended June 30, 2011, the City had drawn \$235,082 in loans from the Iowa Department of Economic Development, Brownfield Redevelopment Program (Department). The loans are at zero percent with no payments due in years one through five. The loan may be forgiven if planned increases in taxable valuation of property within the redevelopment area have been attained. Repayment of unforgiven loan is to be repaid in 10 equal semiannual payments as determined by the Department at a 6 percent interest rate. During the year ended June 30, 2012, \$175,000 on the loans was forgiven by the Iowa Department of Economic Development Authority. As of June 30, 2012, the unpaid principal was \$60,082.

City of Waterloo, Iowa

Notes to Basic Financial Statements

Note 9. Long-Term Liabilities (Continued)

During the year ended June 30, 2008, the City had drawn a \$150,000 loan from the Iowa Department of Economic Development, Brownfield Redevelopment Program (Department). The loan is at zero percent with no payments due in years one through five. The loan may be forgiven if planned increases in taxable valuation of property within the redevelopment area have been attained. Repayment of unforgiven loan is to be repaid in 10 equal semiannual payments as determined by the Department at a 6 percent interest rate. During the year ended June 30, 2012, the outstanding loan amount of \$150,000 was forgiven by the Iowa Department of Economic Development Authority.

The City has entered into development agreements including rebates of property taxes paid by other parties to the agreements. Most agreements include a set percentage of taxes paid for a specified number of years. Since payment years and amounts are unknown, they are not included in the schedule of maturities of debt. The following agreements require a guaranteed amount of principal plus interest to be paid to the developer.

- Hy-Vee, Inc., \$130,982 plus interest at 3 percent. All accrued interest was due September 30, 2007. Semiannual payments of \$50,000 are due beginning May 1, 2008 until principal plus interest has been paid.
- Wilbert Burial Vault Co., \$83,062 plus interest at 5 percent, compounded annually. The City was to pay all accrued interest by September 30, 2007 after which 90 percent of eligible property taxes will be rebated until interest and principal have been paid.
- Young Development, Ltd., \$65,356 plus interest at 5 percent, payable semiannually beginning November 2009 until paid in full from 100 percent of property tax payments, subject to annual appropriation.
- Deer Creek Development, LLC, \$1,476,567 plus interest at 7 percent through March 31, 2011 then at 4.750 percent, compounded semiannually. Payable at \$300,000 in fiscal year 2011 and semiannual payments of \$100,000 are due beginning November 2011 until principal plus interest have been paid.

Other loans and notes: Other governmental activity loans and notes mature as follows:

	GO Debt Service		Nonmajor Governmental Funds	
	Principal	Interest	Principal	Interest
<u>Year ending June 30:</u>				
2013	\$ 66,831	\$ 19,533	\$ 258,017	\$ 80,727
2014	71,295	15,069	205,793	68,392
2015	76,001	10,363	179,276	59,468
2016	81,017	5,347	187,971	50,773
2017	-	-	182,007	41,862
2018 - 2022	-	-	802,992	86,347
	<u>\$ 295,144</u>	<u>\$ 50,312</u>	<u>\$ 1,816,056</u>	<u>\$ 387,569</u>

City of Waterloo, Iowa

Notes to Basic Financial Statements

Note 9. Long-Term Liabilities (Continued)

Discretely presented component unit:

	Balance December 31, 2010	Additions	Deletions	Balance December 31, 2011	Due Within One Year
Capital loan notes	\$ 2,125,000	\$ -	\$ 320,000	\$ 1,805,000	\$ 335,000
Compensated absences	45,040	58,704	45,040	58,704	58,704
Subtotal	2,170,040	58,704	365,040	1,863,704	393,704
Less unamortized discount	15,980	-	3,196	12,784	-
Total long-term debt	\$ 2,154,060	\$ 58,704	\$ 361,844	\$ 1,850,920	\$ 393,704

Series 2007 capital loan notes, Bankers Trust Company, N.A. due in annual payments ranging from \$335,000 to \$390,000 through December 2016, plus interest semiannually at rates ranging from 3.75 percent to 4.0 percent, depending on maturity, secured by first lien on net revenue.

The Waterloo Water Works has pledged future gross revenue, net of specified operating expense to repay \$3,300,000 in water revenue capital loan notes issued in February 2007. Proceeds from the notes provided for refunding of Series 2001 capital loan notes and costs of water main extensions and other improvements. The notes are payable solely from net revenue of the Water Works system and restricted cash held in the debt reserve account. Annual principal and interest payments are expected to be less than 80 percent of net revenue. The principal and interest remaining to be paid is \$2,024,415. For the current year, principal and interest paid and net revenue of the system were \$402,812 and \$2,960,822, respectively.

Debt indentures require that certain covenants relating to the maintenance and efficiency of the operating system, the rate structure, restrictions on borrowings, leasing or disposition of assets and minimum insurance coverage be adhered to. During 2011, Waterloo Water Works was in compliance with required covenants.

As of December 31, 2011 annual maturities of long-term debt were as follows:

Year ending December 31:	Principal	Interest	Total
2012	\$ 335,000	\$ 70,652	\$ 405,652
2013	345,000	57,923	402,923
2014	360,000	44,640	404,640
2015	375,000	30,600	405,600
2016	390,000	15,600	405,600
	\$ 1,805,000	\$ 219,415	\$ 2,024,415

City of Waterloo, Iowa

Notes to Basic Financial Statements

Note 10. Operating Leases

Effective July 1, 1999, the City's sanitary sewer operations entered into a five-year agreement for the management of biosolid by-products produced at the Wastewater Treatment Facility. The agreement included the lease of a storage facility. Effective August 1, 2010, the agreement was extended for an additional five years at a monthly rental of \$4,700.

Rental expense for all material operating leases was \$102,600 for the year ended June 30, 2012.

Note 11. Retirement Systems

Police and Fire Retirement Plan: The City contributes to the Municipal Fire and Police Retirement System of Iowa (MFPRSI), which is a cost-sharing multiple-employer public fire and police employees defined benefit pension plan administered by a board of trustees.

MFPRSI provides retirement, disability and death benefits which are established by state statute to plan members and beneficiaries. MFPRSI issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to MFPRSI, 7155 Lake Drive, West Des Moines, Iowa 50263.

Plan members are required to contribute 9.40 percent of their earnable compensation and the City's contribution rate may not be less than 17 percent of annual earnable compensation. For the year ended June 30, 2012 the City's rate was 24.76 percent. Contribution requirements are established by state statute and may be amended by the state of Iowa legislature with the consent of the governor. The City's contributions to MFPRSI for the years ended June 30, 2012, 2011 and 2010 were \$3,522,615, \$2,731,277 and \$2,249,021, respectively, which met the required contributions for each year.

Other City Employees' Retirement Plan: The City 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 5.38 percent of their annual salary and the City is required to contribute 8.07 percent of annual covered payroll. Contribution requirements are established by state statute and may be amended by the state of Iowa legislature with the consent of the governor. The City's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$1,250,399, \$1,066,879 and \$991,202, respectively, which met the required contributions for each year.

Component Unit

Plan description: The Waterloo Water Works (Utility) maintains the Waterloo Water Works Pension Plan (Plan), which is a single employer defined benefit plan administered by the Pension Committee of the Waterloo Water Works. The Plan provides retirement benefits to plan members and beneficiaries. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the Committee. The Plan does not issue a stand-alone financial report. The actuarial report on the Plan is held at the Utility's office.

City of Waterloo, Iowa

Notes to Basic Financial Statements

Note 11. Retirement Systems (Continued)

Funding policy: The contribution requirements of Plan members and the Utility are established and may be amended by the Utility. Mandatory contributions to the Plan are equal to the IPERS rate effective January 1 of the previous year. During 2009, plan members contributions were not required and the Utility made all the required contributions. Beginning January 1, 2010, plan members were required to contribute one-third of the full contribution rate of 4.1 percent and the Utility paid the rest of the required contribution. As of January 1, 2011, plan members are required to contribute two-thirds of the full contribution rate of 4.3 percent and beginning January 1, 2012, plan members will be required to contribute all of the mandatory contributions. Amounts contributed to the plan during 2011, 2010 and 2009 were \$376,664, \$395,818 and \$379,444, respectively.

Annual pension cost and net pension obligation: The Utility's annual pension cost and net pension (asset) obligation to the Plan for the year ended December 31, 2011:

Annual required contribution (ARC)	\$ 355,004
Interest on net pension obligation	28,400
Annual pension cost	383,404
Contributions made	(376,664)
Increase in net pension asset	(6,740)
Net pension asset, beginning of year	38,141
Net pension asset, end of year	\$ 31,401

The annual pension cost for 2011 was determined as part of the actuarial valuation using the January 1, 2011 projected unit credit cost method. The actuarial assumptions for 2011 included (a) 8 percent investment rate of return (net of administrative expenses) and (b) projected salary increases of 3 percent per year, compounded annually and retirement at age 65. The actuarial valuation at January 1, 2010 assumes retirement at age 62 with 30 years of service. The assumptions did not include any postretirement benefits. The actuarial value of assets was determined using the current market value of investments.

Three-Year Trend Information			
Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
December 31, 2009	\$ 397,984	95%	\$ -
December 31, 2010	357,677	111	(38,141)
December 31, 2011	383,404	98	(31,401)

City of Waterloo, Iowa

Notes to Basic Financial Statements

Note 12. Deficit Fund Balances

Funds with deficit balances as of June 30, 2012 were as follows:

Major governmental, Special revenue, Grants	\$ 5,343,732
Nonmajor governmental:	
Capital projects,	
Vision Iowa Projects	266,636

Note 13. Commitments

Construction: The City is involved in construction of capital assets, mainly streets, riverfront improvements and Brownfields reconstruction. Much of the construction is partially funded through federal, state and local grants and donations. City participation in the programs is generally funded through proceeds of debt issues, local option taxes and distributions from the Black Hawk County Solid Waste Management Commission. As of June 30, 2012, the City was committed to approximately \$25.9 million of construction contracts.

Property tax rebates: The City has entered into a number of development agreements with various businesses located in City tax increment financing districts. The agreements offer rebates of portions of taxes paid for up to 10 years, depending on each individual agreement. The amount of the rebates are a percentage of the actual taxes paid by the business. Rebates are reported at the time property taxes are received. See Note 9 for additional information.

Loan guarantee: The City has guaranteed a bank loan of Cedar Skyline Corporation d/b/a Main Street Waterloo. In the event the primary debtor is unable to repay the loan, the City would be required to make the payments. As of June 30, 2012, the note balance was \$235,599.

Note 14. Other Postemployment Benefits

Plan description: The City sponsors a single-employer health care plan that provides self-insured medical, prescription drug, dental and vision benefits to all active and retired employees and their eligible dependents. As required by state law, employees who retire from service with the City prior to age 65 are eligible for coverage in the plan. Police and fire employees must have completed four years of service, be age 55 and vested in the Municipal Fire and Police Retirement System. All other employees must have completed four years of service, be age 55 and be vested in IPERS to participate in the plan. Retirees are allowed to be covered by the plan until they are medicare eligible at age 65. Spouses of retirees are eligible to be covered on the plan for an additional eight years or until they reach age 65, whichever is sooner. Other dependents are allowed to be covered under the plan while an eligible dependent. The plan does not issue a stand-alone financial report.

Funding policy: Management develops the health insurance plan contributions based on expected claims. The current funding policy of the City is to pay health claims as they occur. Retirees are responsible for the portion of premium rates not covered by the City.

The required contribution is based on projected pay-as-you-go financing. For fiscal year 2012, the City contributed \$2,071,603. Retiree and active members receiving benefits have required contributions of \$587.26 per month for single health coverage and \$1,486.73 for family coverage.

City of Waterloo, Iowa

Notes to Basic Financial Statements

Note 14. Other Postemployment Benefits (Continued)

Annual OPEB cost and net OPEB obligation: The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance to the parameters for GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for the year, the amount actuarially contributed to the plan and changes in the City's annual OPEB obligation:

Annual required contribution	\$ 2,257,000
Interest on net OPEB obligation	184,119
Adjustment to annual required contribution	(156,039)
Annual OPEB cost (expense)	2,285,080
Contributions and payments made	2,071,603
Increase in net OPEB obligation	213,477
Net OPEB obligation - July 1, 2011	4,091,523
Net OPEB obligation - June 30, 2012	\$ 4,305,000

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligations for 2012 and the two preceding years follows.

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 3,590,000	55.54%	\$ 2,110,000
June 30, 2011	3,586,234	44.75	4,091,523
June 30, 2012	2,285,080	90.66	4,305,000

Funded status and funding progress: As of July 1, 2011, the most recent valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$29,248,000 and the actuarial value of assets is none resulting in an unfunded actuarial accrued liability (UAAL) of \$29,248,000. The covered payroll (annual payroll of active employees covered by the plan) was \$32,295,003 and the ratio of the UAAL to the covered payroll was 90.57 percent.

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 health care cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer 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 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.

City of Waterloo, Iowa

Notes to Basic Financial Statements

Note 14. Other Postemployment Benefits (Continued)

Actuarial methods and assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and included in 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 that are 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.

In the July 1, 2011 actuarial valuation, projected unit credit method was used. The actuarial assumptions included a 4.5 percent annual discount rate, a healthcare cost trend rate of 10 percent on a select basis reducing 0.5 percent each year until reaching the ultimate trend rate of 5 percent, and an annual salary increase of 3.5 percent. The UAAL is being amortized as a level percentage of salary on an open basis. The amortization of UAAL is over a period of 20 years for the explicit portion of the subsidy and a period of 30 years for the implicit portion of the subsidy.

Note 15. Employee Health Care Plan

The City provides health care, including dental, vision and prescription coverages, to its employees and certain former employees through a self-funded health insurance plan. Administration is provided by contracted providers. The City accounts for the plan in the General Fund, City Clerk and Finance Department, Health/Life Insurance Activity. Other funds, departments and activities are assessed for costs based on current and former employees within the activity. General Fund costs to activities are funded by an employee benefits levy in the Trust and Agency Fund. The City is allowed to levy amounts needed to provide benefits.

The City purchases stop-loss insurance, \$100,000 specific and 125 percent aggregate of expected claims with individual lifetime limit of \$2,500,000.

The City's estimated unpaid claims as of June 30 and its needed reserves for claim fluctuation were determined by an actuarial study performed as of June 30. All outstanding claims are considered matured and expected to be paid in fiscal year 2013, with current available financial resources. Changes and balances are as follows:

	2012	2011
Estimated unpaid claims, beginning of year	\$ 1,300,239	\$ 1,204,488
Estimated claims incurred	9,555,950	9,111,302
Claims payments	(9,589,635)	(9,015,551)
Estimated unpaid claims, end of year	<u>\$ 1,266,554</u>	<u>\$ 1,300,239</u>

City of Waterloo, Iowa

Notes to Basic Financial Statements

Note 16. Worker's Compensation Plan

The City provides worker's compensation benefits through a self-funded plan. Administration is provided by a contracted provider. The City accounts for the plan in the General Fund, City Clerk and Finance Department, Self-Funded Worker's Compensation Activity. Costs are funded by an employee benefits levy in the Trust and Agency Fund. The City is allowed to levy amounts needed to provide benefits.

The City's estimated unpaid claims as of June 30 are based on projected costs of future payments for injuries incurred prior to June 30, 2012, and is recorded as a liability in the government-wide statement of net assets. Changes and balances are as follows:

	2012	2011
Estimated unpaid claims, beginning of year	\$ 370,009	\$ 145,231
Estimated claims incurred	197,771	887,459
Claims payments	(544,793)	(662,681)
Estimated unpaid claims, end of year	<u>\$ 22,987</u>	<u>\$ 370,009</u>

Note 17. Joint Ventures and Jointly Governed Organizations

The City is a participating member of several organizations including the Black Hawk County Criminal Justice Information System (CJIS), the Consolidated Dispatch Center (Center), the Black Hawk County Solid Waste Management Commission (SWMC) and the Metropolitan Transit Authority (MET). In addition, the City pays its share of costs for CJIS, including debt service, pays its share of costs of the Center, pays landfill fees to SWMC and levies and collects property taxes from Black Hawk County and remits them to MET (\$1,404,561 during the year ended June 30, 2012). During the year ended June 30, 2012, the City received a distribution of \$1,043,192 from SWMC. Cumulative unexpended SWMC distributions are reported in the General Fund as designated for Vision Iowa projects. Also, during the year ended June 30, 2012, the Sanitation Fund received an operating grant of \$273,624 from SWMC. This grant was used to offset recycling costs.

The Center's financial information is reported within the Black Hawk County annual financial report. CJIS, SWMC and MET issue their own annual reports. Reports are available on the Iowa Auditor of State's website <http://auditor.iowa.gov/reports>.

The City has no equity position in any of the organizations.

Note 18. Industrial Development Revenue Bonds

The City has issued a total of \$143,041,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa. The amount outstanding as of June 30, 2012 is not reported to the City by either the debtors or creditors. Therefore, outstanding balances are unknown. The bonds and related interest are payable solely from revenue of applicable projects. Bond principal and interest do not constitute liabilities of the City.

Notes to Basic Financial Statements

Note 19. Risk Management

The City 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 and self-funded worker's compensation. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The City assumes the risks of loss of both mobile vehicles and equipment, except for certain pieces of equipment, such as fire and forestry equipment, with large per-unit costs which are insured against loss subject to deductibles.

As of June 30, 2012, the City has assigned \$3,133,933 of its General Fund, fund balance for insurable risks retained.

Note 20. Community Economic Betterment Account Agreements

During fiscal year 2008, the City passed through \$350,000 of proceeds received from the state to two businesses under Community Economic Betterment Account (CEBA) Agreements. Two loans, in the amounts of \$150,000 and \$100,000, respectively, are set up as forgivable loans. During fiscal year 2012, the \$150,000 loan was forgiven as all necessary conditions for forgiveness were satisfied. In addition, \$100,000 is to be paid back to the state directly from the business at 0 percent interest and 60 monthly payments of \$1,668 until June 1, 2013. As of June 30, 2012, \$111,666 of the loan remained outstanding.

Note 21. Contingencies

The City is involved in various lawsuits in the normal course of business. There are several actions pending. Legal counsel has advised the City that it is reasonably possible that the City may incur losses of \$40,000 from these cases that would not be covered under the City's insurance policies.

City of Waterloo, Iowa

Notes to Basic Financial Statements

Note 22. Fund Balances

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. The details for the City's fund balances are as follows:

Fund balances:	General	Trust and Agency	Local Option Tax	Grants	Tax Increment Financing	General Obligation Debt Service	Nonmajor Governmental	Total
Nonspendable:								
Inventories	\$ 271,791	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 291,166	\$ 562,957
Prepays	54,485	-	-	-	-	-	6,350	60,835
Total nonspendable	326,276	-	-	-	-	-	297,516	623,792
Restricted:								
Debt service	-	-	-	-	1,073,613	4,946,794	-	6,020,407
Self-funded health insurance	1,987,881	-	-	-	-	-	-	1,987,881
Tourism promotion	759,613	-	-	-	-	-	-	759,613
Public access television	91,065	-	-	-	-	-	-	91,065
Housing	75,421	-	-	-	-	-	4,417,120	4,492,541
Donor specified	524,412	-	-	-	-	-	-	524,412
Employee benefits	-	2,465,761	-	-	-	-	-	2,465,761
Library	-	-	-	-	-	-	91,229	91,229
Street construction	-	-	7,504,040	-	-	-	-	7,504,040
Loan reserve	-	-	-	-	-	-	517,553	517,553
Street and right-of-way maintenance	-	-	-	-	-	-	4,936,712	4,936,712
Improvements	-	-	-	-	-	-	16,334,124	16,334,124
Total restricted	3,438,392	2,465,761	7,504,040	-	1,073,613	4,946,794	26,296,738	45,725,338
Assigned:								
Insurance	3,133,933	-	-	-	-	-	-	3,133,933
Other postemployment benefits	1,049,135	-	-	-	-	-	-	1,049,135
Other	45,422	-	-	-	428,750	-	79,694	553,866
Fiscal year 2013 operations	574,347	-	-	-	-	-	-	574,347
Improvements	-	-	1,824,553	-	-	-	-	1,824,553
Total assigned	4,802,837	-	1,824,553	-	428,750	-	79,694	7,135,834
Unassigned	9,644,699	-	-	(5,343,732)	-	-	(1,818,152)	2,482,815
Total fund balances (deficit)	\$ 18,212,204	\$ 2,465,761	\$ 9,328,593	\$ (5,343,732)	\$ 1,502,363	\$ 4,946,794	\$ 24,855,796	\$ 55,967,779

Notes to Basic Financial Statements

Note 23. New GASB Statements and Pending Pronouncements

The GASB has issued several statements not yet implemented by the City. The statements which might impact the City are as follows:

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, issued November 2010, will be effective for the City beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The amendments to the criteria for including component units allow users of financial statements to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. The amendments to the criteria for blending also improve the focus of a financial reporting entity on the primary government by ensuring that the primary government includes only those component units that are so intertwined with the primary government that they are essentially the same as the primary government, and by clarifying which component units have that characteristic.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued January 2011, will be effective for the City beginning with its year ending June 30, 2013. This Statement is intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. This Statement incorporates into the GASB's authoritative literature the applicable guidance previously presented in the following pronouncements issued before November 30, 1989: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure. By incorporating and maintaining this guidance in a single source, the GASB believes that GASB 62 reduces the complexity of locating and using authoritative literature needed to prepare state and local government financial reports.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued July 2011, will be effective for the City beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. This Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This Statement also amends certain provisions of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets.

Notes to Basic Financial Statements

Note 23. New GASB Statements and Pending Pronouncements (Continued)

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued April 2012, will be effective for the City beginning with its year ending June 30, 2014. This Statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. GASB Concepts Statement (CON) No. 4, *Elements of Financial Statements*, specifies that recognition of deferred outflows and deferred inflows should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in CON 4. Based on those definitions, this Statement reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, the Statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources.
- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, issued June 2012, will be effective for the City beginning with its year ending June 30, 2015. This Statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. This Statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information.

The City's management has not yet determined the effect these statements will have on the City's financial statements.

Note 24. Subsequent Event

The City redeemed the outstanding balance of the Series 2003A and Series 2005A bond issues in the amount of \$2,300,000 and \$3,050,000, respectively, in July 2012 with the proceeds from the refunding bonds issued in June 2012.

On July 25, 2012, the City issued taxable general obligation bonds in the amount of \$5,205,000. The proceeds will be used for new projects and to redeem the balance of the 2005B taxable bond issue of \$1,210,000. The City incurred total debt service for the prior issue in the amount of \$1,498,331 (\$1,210,000 principal and \$288,331 interest). This resulted in net savings of \$178,101 in total future debt service. Interest rates on the new bonds range from 2.2 percent to 3.5 percent.

City of Waterloo, Iowa

**Required Supplementary Information
Other Postemployment Benefit Plan**

SCHEDULE OF FUNDING PROGRESS									
Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Net Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Over funded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]		
2010	7/1/09	\$ -	\$ 42,655,000	\$ 42,655,000	- %	\$ 29,563,940	144.28%		
2011	7/1/09	-	42,655,000	42,655,000	-	30,477,806	139.95		
2012	7/1/11	-	29,248,000	29,248,000	-	32,295,003	90.57		

The information presented in the required supplementary schedule was determined as part of the actuarial valuation date as of July 1, 2011.
Additional information follows:

- The actuarial method used to determine the ARC is the projected unit credit method.
- There are no plan assets.
- The actuarial assumptions included: a) 4.5 percent annual discount rate, b) a healthcare cost trend rate of 10 percent initially, decreasing 0.5 percent each year until reaching the ultimate trend rate of 5 percent, and c) an annual salary increase of 3.5 percent.
- The amortization method is level percentage of pay on an open basis over 30 years.

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City of Waterloo, Iowa

Budgetary Comparison Schedule

Budget and Actual (Modified Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year Ended June 30, 2012

	Budgeted Amounts	
	Original	Final
Revenues and other financing sources receipts:		
Receipts:		
Property taxes	\$ 38,703,447	\$ 38,703,447
Tax increment financing	5,603,296	5,603,296
Other City taxes	14,263,707	14,364,764
Licenses and permits	1,084,995	1,084,995
Use of money and property	1,140,726	1,171,868
Intergovernmental	49,402,787	52,306,247
Charges for services	22,567,033	23,182,107
Special assessments	124,906	133,006
Miscellaneous	6,309,004	8,736,453
Total receipts	139,199,901	145,286,183
Other financing sources:		
Transfer from other funds	17,428,137	18,374,137
Issuance of long-term debt	11,500,000	24,633,104
Proceeds from sale of capital assets	132,500	152,500
Total other financing sources	29,060,637	43,159,741
Total receipts and other financing sources	168,260,538	188,445,924
Disbursements and other financing uses:		
Governmental-type activities:		
Public safety	28,874,469	30,419,347
Public works	24,369,627	25,582,014
Health and social services	352,573	389,115
Culture and recreation	9,016,293	9,775,078
Community and economic development	15,025,953	15,922,505
General government	5,284,826	6,066,111
Debt service	13,497,182	20,397,182
Capital projects	40,923,729	43,715,523
Business-type activities	18,581,561	26,911,126
Total disbursements	155,926,213	179,178,001
Other financing uses,		
transfers to other funds	17,428,137	18,374,137
Total disbursements and other financing uses	173,354,350	197,552,138
Receipts and other financing sources over (under)		
disbursements and other financing uses	(5,093,812)	(9,106,214)
Balances, beginning of year	59,316,588	80,591,400
Balances, end of year	\$ 54,222,776	\$ 71,485,186

See Note to Required Supplementary Information.

Actual Amounts Budgetary Basis		Variance With Final Budget	
\$	38,490,811	\$	(212,636)
	5,499,808		(103,488)
	15,256,788		892,024
	1,121,221		36,226
	1,427,959		256,091
	24,200,505		(28,105,742)
	23,581,247		399,140
	152,747		19,741
	7,377,829		(1,358,624)
	117,108,915		(28,177,268)
	17,869,236		(504,901)
	19,647,500		(4,985,604)
	144,623		(7,877)
	37,661,359		(5,498,382)
	154,770,274		(33,675,650)
	29,742,549		676,798
	23,707,017		1,874,997
	346,475		42,640
	9,389,253		385,825
	13,019,061		2,903,444
	5,834,784		231,327
	13,235,378		7,161,804
	21,490,763		22,224,760
	21,998,850		4,912,276
	138,764,130		40,413,871
	17,869,236		504,901
	156,633,366		40,918,772
	(1,863,092)		7,243,122
	80,591,400		-
\$	78,728,308	\$	7,243,122

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City of Waterloo, Iowa

**Note to Required Supplementary Information – Budgetary Reporting
Year Ended June 30, 2012**

In accordance with the Code of Iowa, the City Council annually adopts a budget on a modified cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon 10 major classes of disbursements known as functions, not by fund or fund type. These 10 functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type and nonprogram. Although the budget document presents function disbursements by fund type, the legal level of control is at the aggregated function level, not at the fund or fund type level. During the year, a budget amendment was adopted which increased budgeted expenditures by \$23,251,788. The budget amendment is reflected in the final budgeted amount.

The City uses the same modified cash basis of accounting for budgetary reporting as is used for its internal financial records. Under this basis, cash transactions are modified by certain receivables and payables and by certain noncash revenue and expenditures. In addition, many transactions which should be recorded in and reported by the Sanitary Sewer Enterprise Fund are recorded in and reported by governmental funds.

City of Waterloo, Iowa

**Schedule of Comparison
Funds Statements (GAAP Basis) to Budgetary (Modified Cash) Basis
Required Supplementary Information
Year Ended June 30, 2012**

	Governmental Fund Types Basis Actual Amounts	Enterprise Fund Types Basis Actual Amounts	Total Funds
Revenue/Receipts:			
Property taxes and TIF revenue	\$ 42,864,091	\$ -	\$ 42,864,091
Other taxes	15,460,718	-	15,460,718
Licenses and permits	1,119,886	-	1,119,886
Use of money and property	1,240,904	18,612	1,259,516
Intergovernmental	25,596,988	269,625	25,866,613
Charges for services	6,748,285	16,646,902	23,395,187
Interfund charges for services	1,935,000	-	1,935,000
Special assessments	93,870	-	93,870
Miscellaneous	3,702,763	73,650	3,776,413
Total revenue/receipts	98,762,505	17,008,789	115,771,294
Expenditures and expenses/disbursements:			
Public safety	29,272,717	-	29,272,717
Public works	25,565,737	-	25,565,737
Health and social services	346,952	-	346,952
Culture and recreation	9,396,914	-	9,396,914
Community and economic development	13,794,104	-	13,794,104
General government	4,956,104	-	4,956,104
Debt service	11,159,912	-	11,159,912
Capital projects	14,140,916	-	14,140,916
Business-type activities	-	13,410,965	13,410,965
Total expenditures and expenses/ disbursements	108,633,356	13,410,965	122,044,321
Net	(9,870,851)	3,597,824	(6,273,027)

(Continued)

Budgetary Basis Exceptions		Property Tax Collected for and Remitted to MET	Other GAAP Conversion Adjustments	Budgetary Basis
\$	-	\$ 1,404,561	\$ (278,033)	\$ 43,990,619
	-	-	(203,930)	15,256,788
	-	-	1,335	1,121,221
	-	-	168,443	1,427,959
	-	-	(1,666,108)	24,200,505
	-	-	186,060	23,581,247
	-	-	(1,935,000)	-
	-	-	58,877	152,747
	-	-	3,601,416	7,377,829
	-	1,404,561	(66,940)	117,108,915
	-	-	469,832	29,742,549
	-	1,404,561	(3,263,281)	23,707,017
	-	-	(477)	346,475
	-	-	(7,661)	9,389,253
	-	-	(775,043)	13,019,061
	-	-	878,680	5,834,784
	-	-	2,075,466	13,235,378
	-	-	7,349,847	21,490,763
	-	-	8,587,885	21,998,850
	-	1,404,561	15,315,248	138,764,130
	-	-	(15,382,188)	(21,655,215)

City of Waterloo, Iowa

Schedule of Comparison

Funds Statements (GAAP Basis) to Budgetary (Modified Cash) Basis (Continued)

Required Supplementary Information

Year Ended June 30, 2012

	Governmental Fund Types Basis Actual Amounts	Enterprise Fund Types Basis Actual Amounts	Total Funds
Other financing sources (uses):			
Transfers in	\$ 14,206,860	\$ -	\$ 14,206,860
Transfers out	(14,206,860)	-	(14,206,860)
Capital Contributions	-	126,610	126,610
Insurance proceeds	19,968	-	19,968
Bond discount	(23,039)	-	(23,039)
Bond premium	147,504	-	147,504
Proceeds from sales of capital assets	144,623	-	144,623
Issuance of long-term debt	10,940,000	-	10,940,000
Total other financing sources (uses)	11,229,056	126,610	11,355,666
 Change in fund balance/net assets	 1,358,205	 3,724,434	 5,082,639
Balance, beginning of year	54,609,574	83,834,093	138,443,667
Balance, end of year	<u>\$ 55,967,779</u>	<u>\$ 87,558,527</u>	<u>\$ 143,526,306</u>

Budgetary Basis Exceptions		Property Tax Collected for and Remitted to MET		Other GAAP Conversion Adjustments		Budgetary Basis
\$	-	\$	-	\$	3,662,376	\$ 17,869,236
	-		-		(3,662,376)	(17,869,236)
	-		-		(126,610)	-
	-		-		(19,968)	-
	-		-		23,039	-
	-		-		(147,504)	-
	-		-		-	144,623
	-		-		8,707,500	19,647,500
	-		-		8,436,457	19,792,123
	-		-		(6,945,731)	(1,863,092)
	-		-		(57,852,267)	80,591,400
\$	-	\$	-	\$	(64,797,998)	\$ 78,728,308

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City of Waterloo, Iowa

Schedule of Revenues, Expenditures and Changes in Fund Balances

General Fund

Year Ended June 30, 2012

Revenues:	
Property taxes	\$ 17,897,588
Other taxes	4,571,228
Licenses and permits	1,102,104
Investment income	19,751
Rent	859,563
Intergovernmental	1,925,231
Charges for services	6,426,802
Indirect allocations	1,885,000
Special assessments	93,870
Miscellaneous	2,267,944
Total revenues	\$ 37,049,081
Expenditures:	
Public safety function	
Mayor	
Black Hawk Emergency Management Agency	
Contractual services	\$ 66,716
Total activity and department	66,716
Police department	
Police operations	
Compensation and benefits	10,264,602
Contractual services	778,374
Commodities	379,102
Total activity	11,422,078
Police computer services	
Contractual services	66,253
Commodities	59,631
Total activity	125,884
Police grants	
Compensation and benefits	803,213
Contractual services	69,924
Commodities	90,116
Capital outlay	228,607
Total activity	1,191,860
Law enforcement programs	
Compensation and benefits	34,055
Contractual services	227,298
Commodities	213,832
Capital outlay	32,529
Total activity	507,714
Tobacco grant	
Compensation and benefits	2,504
Total activity	2,504
COPS grant	
Compensation and benefits	327,765
Contractual services	64,985
Total activity	392,750

(Continued)

City of Waterloo, Iowa

Schedule of Revenues, Expenditures and Changes in Fund Balances (Continued)

General Fund

Year Ended June 30, 2012

Expenditures:

Public safety function

Public safety administration

Compensation and benefits 179,604

Contractual services 1,126

Commodities 171

Total activity 180,901

Total department 13,823,691

Fire department

Fire protection

Compensation and benefits \$ 8,341,723

Contractual services 346,947

Commodities 187,061

Total activity 8,875,731

Fire restricted programs

Compensation and benefits 22,819

Contractual services 740

Commodities 5,729

Total activity 29,288

Fire ambulance services

Compensation and benefits 1,295,764

Contractual services 155,970

Commodities 183,474

Total activity 1,635,208

Fire safety program

Compensation and benefits 166,511

Contractual services 27,383

Commodities 2,028

Total activity 195,922

Fire Federal CDC Grant

Compensation and benefits 24,423

Contractual services 4,804

Commodities 192

Total activity 29,419

Total department 10,765,568

Traffic operations department

Animal Control

Contractual services 217,533

Commodities 440

Total activity and department 217,973

Building inspection department

Building and housing safety

Compensation and benefits 801,755

Contractual services 19,482

Commodities 32,656

Total activity and department 853,893

(Continued)

City of Waterloo, Iowa

Schedule of Revenues, Expenditures and Changes in Fund Balances (Continued)

General Fund

Year Ended June 30, 2012

Expenditures:

Public safety function totals

Current

Compensation and benefits 22,264,738

Contractual services 2,047,535

Commodities 1,154,432

Subtotal 25,466,705

Capital outlay 261,136

Total public safety function \$ 25,727,841

Public works function

Clerk

Parking administration

Compensation and benefits \$ 80,951

Contractual services 41,982

Commodities 5,301

Total activity and department 128,234

City engineer

Gateway improvements

Capital outlay 12,345

Total activity 12,345

Sidewalk repair/construction

Capital outlay 151,642

Total activity 151,642

Total activity and department 163,987

Traffic operations

Parking maintenance

Compensation and benefits 193,446

Contractual services 41,663

Commodities 16,203

Total activity and department 251,312

Central garage

Central garage

Compensation and benefits 736,564

Contractual services 29,560

Commodities 112,858

Total activity 878,982

Motor pool service

Commodities 427,682

Total activity 427,682

Total department 1,306,664

Airport

Airport administration

Compensation and benefits 507,328

Contractual services 276,398

Commodities 128,200

Total activity and department 911,926

(Continued)

City of Waterloo, Iowa

Schedule of Revenues, Expenditures and Changes in Fund Balances (Continued)

General Fund

Year Ended June 30, 2012

Expenditures:

Public works function

Public works function totals

Current

Compensation and benefits

\$ 1,518,289

Contractual services

389,603

Commodities

690,244

Subtotal

2,598,136

Capital outlay

163,987

Total public works function

\$ 2,762,123

Health and social services function

Mayor

Health and sanitation

Contractual services

\$ 75,000

Total activity

75,000

Total department

75,000

Human rights department

Human rights

Compensation and benefits

210,165

Contractual services

13,948

Commodities

2,565

Total activity

226,678

Housing enforcement

Compensation and benefits

(714)

Contractual services

41,948

Total activity

41,234

Cedar Valley diversity action team

Contractual services

4,040

Total activity

4,040

Total department

271,952

Health and social services function totals

Current

Compensation and benefits

209,451

Contractual services

134,936

Commodities

2,565

Total health and social services function

\$ 346,952

(Continued)

City of Waterloo, Iowa

Schedule of Revenues, Expenditures and Changes in Fund Balances (Continued)

General Fund

Year Ended June 30, 2012

Expenditures:

Culture and recreation function

Mayor

Fairview cemetery association

Contractual services

\$ 52,500

Total activity

52,500

Total department

52,500

Cultural/arts

Center for the arts

Compensation and benefits

643,969

Contractual services

77,363

Commodities

15,781

Total activity

737,113

Youth pavilion

Compensation and benefits

251,077

Contractual services

48,745

Commodities

26,464

Total activity

326,286

Junior Art Gallery

Contractual services

19,445

Total activity

19,445

Public Art

Contractual services

1,338

Total activity

1,338

Culture and arts grants and projects

Compensation and benefits

1,794

Contractual services

94,242

Total activity

96,036

Total department

1,180,218

Library

Library services

Compensation and benefits

1,185,324

Contractual services

255,736

Commodities

219,482

Total activity

1,660,542

Library Enrich Iowa

Contractual services

10,986

Total activity

10,986

Library access plus

Commodities

5,420

Total activity

5,420

Library grants

Commodities

215,543

Capital outlay

113,248

Total activity

328,791

(Continued)

City of Waterloo, Iowa

Schedule of Revenues, Expenditures and Changes in Fund Balances (Continued)

General Fund

Year Ended June 30, 2012

Expenditures:

Culture and recreation function

Library

Library gift and trust

Contractual services

\$ 31,436

Commodities

42,519

Total activity

73,955

Library service area

Commodities

27,568

Total activity

27,568

County library system

Compensation and benefits

63,175

Contractual services

9,077

Commodities

8,429

Total activity

80,681

Library open access

Commodities

7,919

Total activity

7,919

Total department

2,195,862

Leisure services

Leisure services

Compensation and benefits

1,825,433

Contractual services

238,746

Commodities

267,259

Total activity

2,331,438

Downtown area maintenance

Compensation and benefits

166,649

Contractual services

33,505

Commodities

47,266

Total activity

247,420

Leisure services projects

Compensation and benefits

2,786

Contractual services

44,292

Commodities

59,985

Capital outlay

8,563

Total activity

115,626

Golf courses

Compensation and benefits

856,159

Contractual services

120,393

Commodities

149,097

Total activity

1,125,649

Golf course improvements

Contractual services

873

Commodities

6,753

Total activity

7,626

Sports and youth services

Compensation and benefits

441,138

Contractual services

28,675

Commodities

118,076

Total activity

587,889

(Continued)

City of Waterloo, Iowa

Schedule of Revenues, Expenditures and Changes in Fund Balances (Continued)

General Fund

Year Ended June 30, 2012

Expenditures:

Culture and recreation function

Leisure services

Young arena

Compensation and benefits

\$ 412,285

Contractual services

165,940

Commodities

216,830

Total activity

795,055

Total department

5,210,703

Culture and recreation function totals

Current

Compensation and benefits

5,849,789

Contractual services

1,233,292

Commodities

1,434,391

Subtotal

8,517,472

Capital outlay

121,811

Total culture and recreation function

\$ 8,639,283

Community and economic development function

Mayor

Iowa northland council of governments

Contractual services

\$ 30,783

Total activity

30,783

Tourism promotion

Contractual services

280,928

Total activity

280,928

Waterloo Convention & Visitors Bureau, Inc.

Contractual services

623,011

Total activity

623,011

Total department

934,722

Planning and zoning

Planning and zoning

Compensation and benefits

422,305

Contractual services

14,246

Commodities

6,451

Total activity

443,002

City property management

Contractual services

70,147

Total activity

70,147

(Continued)

City of Waterloo, Iowa

Schedule of Revenues, Expenditures and Changes in Fund Balances (Continued)

General Fund

Year Ended June 30, 2012

Expenditures:

Community and economic development function

Planning and zoning

Economic development

Compensation and benefits

\$ 46,154

Total activity

46,154

Special projects

Contractual services

5,894

Total activity

5,894

Total department

565,197

Police department

Code enforcement

Compensation and benefits

(8,024)

Contractual services

(229)

Total activity and department

(8,253)

Five Sullivans Civic Center

Compensation and benefits

91,883

Contractual services

165,247

Commodities

13,108

Total activity and department

270,238

Community and economic development function totals

Current

Compensation and benefits

552,318

Contractual services

1,190,027

Commodities

19,559

Total community and economic development function

\$ 1,761,904

(Continued)

City of Waterloo, Iowa

Schedule of Revenues, Expenditures and Changes in Fund Balances (Continued)

General Fund

Year Ended June 30, 2012

Expenditures:

General government function

Mayor

Mayor's office

Compensation and benefits	\$ 179,242
---------------------------	------------

Contractual services	8,117
----------------------	-------

Commodities	481
-------------	-----

Total activity	<u>187,840</u>
-----------------------	----------------

Administrative and management information services

Compensation and benefits	190,471
---------------------------	---------

Contractual services	111,743
----------------------	---------

Commodities	6,527
-------------	-------

Total activity	<u>308,741</u>
-----------------------	----------------

Total department	<u>496,581</u>
-------------------------	----------------

City council

City council

Compensation and benefits	62,453
---------------------------	--------

Total activity and department	<u>62,453</u>
--------------------------------------	---------------

City clerk and finance

Telecommunications

Compensation and benefits	139,891
---------------------------	---------

Contractual services	1,133
----------------------	-------

Commodities	274
-------------	-----

Total activity	<u>141,298</u>
-----------------------	----------------

City clerk and finance

Compensation and benefits	708,622
---------------------------	---------

Contractual services	349,116
----------------------	---------

Claims, judgments, contingencies	282
----------------------------------	-----

Commodities	54,711
-------------	--------

Total activity	<u>1,112,731</u>
-----------------------	------------------

Liability insurance

Compensation and benefits	56,721
---------------------------	--------

Contractual services	1,080,678
----------------------	-----------

Total activity	<u>1,137,399</u>
-----------------------	------------------

Health/life insurance

Compensation and benefits	1,382
---------------------------	-------

Contractual services	311,055
----------------------	---------

Total activity	<u>312,437</u>
-----------------------	----------------

Self-funded worker's compensation

Contractual services	195,245
----------------------	---------

Total activity	<u>195,245</u>
-----------------------	----------------

Print shop

Contractual services	48,551
----------------------	--------

Total activity	<u>48,551</u>
-----------------------	---------------

Total department	<u>2,947,661</u>
-------------------------	------------------

(Continued)

City of Waterloo, Iowa

Schedule of Revenues, Expenditures and Changes in Fund Balances (Continued)

General Fund

Year Ended June 30, 2012

Expenditures:

General government function

City attorney

City attorney

Compensation and benefits

\$ 174,790

Contractual services

221,841

Commodities

14,987

Total activity and department

411,618

Human resources

Employee assistance program

Contractual services

1,640

Total activity

1,640

Human resources

Compensation and benefits

247,582

Contractual services

49,315

Commodities

1,784

Total activity

298,681

Safety committee

Compensation and benefits

1,509

Contractual services

6,629

Commodities

(449)

Total activity

7,689

Total department

308,010

Building inspection

Facilities maintenance

Compensation and benefits

164,232

Contractual services

206,332

Commodities

63,920

Total activity

434,484

Facilities restricted project

Contractual services

70

Commodities

2,308

Total activity

2,378

Veteran's memorial hall

Contractual services

7,748

Total activity

7,748

Total department

444,610

General government function totals

Current

Compensation and benefits

1,926,895

Contractual services

2,599,495

Commodities

144,543

Total general government function

\$ 4,670,933

(Continued)

City of Waterloo, Iowa

Schedule of Revenues, Expenditures and Changes in Fund Balances (Continued)

General Fund

Year Ended June 30, 2012

Expenditures:

Public safety	\$ 25,727,841
Public works	2,762,123
Health and social services	346,952
Culture and recreation	8,639,283
Community and economic development	1,761,904
General government	4,670,933

Total expenditures	\$ 43,909,036
---------------------------	----------------------

Revenue under expenditures	\$ (6,859,955)
-----------------------------------	-----------------------

Other financing sources (uses):

Transfers in	8,876,141
Transfers out	(1,825,612)
Insurance proceeds	6,729
Proceeds from sale of capital assets	142,886
Total other financing sources	7,200,144

Net change in fund balance	340,189
-----------------------------------	----------------

Fund balance, beginning of year	17,872,015
Fund balance, end of year	\$ 18,212,204

City of Waterloo, Iowa

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012**

	Special Revenue	Capital Projects	Total
Assets			
Cash and cash equivalents	\$ 6,126,109	\$ 15,151,090	\$ 21,277,199
Investments	502,638	-	502,638
Receivables:			
Customer accounts	2,088	1,821,589	1,823,677
Property taxes:			
Delinquent	4,931	-	4,931
Succeeding year	593,470	-	593,470
Accrued interest	5	-	5
Due from other funds	145,428	539,953	685,381
Due from other governments:			
Federal	1,141,471	-	1,141,471
Iowa	1,306,287	529,757	1,836,044
Other	6,895	9,299	16,194
Inventories and prepaids	297,516	-	297,516
Restricted assets, cash and cash equivalents	2,569,613	-	2,569,613
Total assets	\$ 12,696,451	\$ 18,051,688	\$ 30,748,139
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 279,780	\$ 1,210,152	\$ 1,489,932
Retainages payable	46,849	307,792	354,641
Accrued liabilities	92,819	-	92,819
Due to other funds	769,756	522,916	1,292,672
Deferred revenue	852,365	1,678,585	2,530,950
Compensated absences	29,636	-	29,636
Payable from restricted assets	101,693	-	101,693
Total liabilities	2,172,898	3,719,445	5,892,343
Fund Balances:			
Nonspendable	297,516	-	297,516
Restricted	10,160,919	16,135,819	26,296,738
Assigned	79,694	-	79,694
Unassigned	(14,576)	(1,803,576)	(1,818,152)
Total fund balances	10,523,553	14,332,243	24,855,796
Total liabilities and fund balances	\$ 12,696,451	\$ 18,051,688	\$ 30,748,139

City of Waterloo, Iowa

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2012

	Special Revenue	Capital Projects	Total
Revenues:			
Property taxes	\$ 552,312	\$ -	\$ 552,312
Other taxes	26,073	-	26,073
Licenses and permits	17,782	-	17,782
Investment income	1,007	13,318	14,325
Rent	186,724	-	186,724
Intergovernmental	16,766,163	1,537,467	18,303,630
Charges for services	315,390	-	315,390
Interfund charges for services	50,000	-	50,000
Miscellaneous	33,129	1,258,119	1,291,248
Total revenues	17,948,580	2,808,904	20,757,484
Expenditures:			
Current:			
Public safety	15,067	-	15,067
Public works	7,377,924	-	7,377,924
Culture and recreation	567,258	-	567,258
Community and economic development	9,013,138	-	9,013,138
General government	278	-	278
Debt service:			
Bond issuance costs	-	39,780	39,780
Capital outlay	-	14,140,916	14,140,916
Total expenditures	16,973,665	14,180,696	31,154,361
Revenues over (under) expenditures	974,915	(11,371,792)	(10,396,877)
Other financing sources (uses):			
Transfers in	-	2,316,576	2,316,576
Bond premium	-	147,504	147,504
Proceeds from sale of capital assets	1,237	-	1,237
Issuance of long-term debt	-	6,740,000	6,740,000
Total other financing sources (uses)	1,237	9,204,080	9,205,317
Net change in fund balance	976,152	(2,167,712)	(1,191,560)
Fund balance, beginning of year	9,547,401	16,499,955	26,047,356
Fund balance, end of year	\$ 10,523,553	\$ 14,332,243	\$ 24,855,796

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City of Waterloo, Iowa

**Special Revenue Funds
June 30, 2012**

Special Revenue Funds account for the proceeds of specific revenue sources that are legally or contractually restricted for particular purposes. The proceeds are segregated into individual funds to ensure that expenditures are made exclusively for qualified purposes, as follows:

Nonmajor:

Library Tax Levy Fund – This fund is used to account for property taxes levied, as passed by local referendum, to be used to increase the hours of operation of the Waterloo Public Library.

Community Development Block Grant Fund – This fund accounts for revenue received under the Community Development Block Grant federal entitlement.

Section 108 Loan Program Fund – This fund accounts for expenditures related to the United States Department of Housing and Urban Development's Section 108 Guaranteed Loan Program.

Road Use Tax Fund – This fund is required by the Code of Iowa to account for the City's share of fuel taxes collected and allocated by the state which is restricted for local street maintenance.

Housing Programs Fund – This fund is used to account for resources received to provide housing assistance, primarily Federal Section 8 and Ridgeway Towers.

Federal Aviation Agency Projects Fund – This fund is used to account for resources from the Federal Aviation Agency and Passenger Facility Charges restricted for airport development.

City of Waterloo, Iowa

**Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2012**

	Special Revenue			
	Library Tax Levy	Community Development Block Grant	Section 108 Loan Program	Road Use Tax
Assets				
Cash and cash equivalents	\$ 170,156	\$ 700	\$ 517,553	\$ 3,776,280
Investments	-	-	-	-
Receivables:				
Customer accounts	-	-	-	2,088
Property taxes:				
Delinquent	4,931	-	-	-
Succeeding year	593,470	-	-	-
Accrued interest	-	-	-	-
Due from other funds	7,825	15,487	-	108,189
Due from other governments:				
Federal	-	254,153	-	-
Iowa	-	-	-	1,262,443
Other	6,895	-	-	-
Inventories and prepaids	-	-	-	291,166
Restricted cash and cash equivalents	-	-	-	-
Total assets	\$ 783,277	\$ 270,340	\$ 517,553	\$ 5,440,166
Liabilities and Fund Balances (Deficits)				
Liabilities:				
Accounts payable	\$ -	\$ 126,585	\$ -	\$ 67,750
Retainages payable	-	-	-	-
Accrued liabilities	11,801	9,863	-	61,349
Due to other funds	-	113,569	-	-
Deferred revenue	598,401	-	-	65,075
Compensated absences	2,152	4,837	-	18,114
Payable from restricted assets	-	-	-	-
Total liabilities	612,354	254,854	-	212,288
Fund balances:				
Nonspendable	-	-	-	291,166
Restricted	91,229	15,486	517,553	4,936,712
Assigned	79,694	-	-	-
Unassigned	-	-	-	-
Total fund balances	170,923	15,486	517,553	5,227,878
Total liabilities and fund balances	\$ 783,277	\$ 270,340	\$ 517,553	\$ 5,440,166

Special Revenue		
Housing Programs	Federal Aviation Agency Projects	Total
\$ 1,661,420	\$ -	\$ 6,126,109
502,638	-	502,638
-	-	2,088
-	-	4,931
-	-	593,470
5	-	5
13,927	-	145,428
5,990	881,328	1,141,471
-	43,844	1,306,287
-	-	6,895
6,350	-	297,516
2,371,308	198,305	2,569,613
<u>\$ 4,561,638</u>	<u>\$ 1,123,477</u>	<u>\$ 12,696,451</u>
\$ 37,622	\$ 47,823	\$ 279,780
-	46,849	46,849
9,806	-	92,819
-	656,187	769,756
-	188,889	852,365
4,533	-	29,636
101,693	-	101,693
<u>153,654</u>	<u>939,748</u>	<u>2,172,898</u>
6,350	-	297,516
4,401,634	198,305	10,160,919
-	-	79,694
-	(14,576)	(14,576)
<u>4,407,984</u>	<u>183,729</u>	<u>10,523,553</u>
<u>\$ 4,561,638</u>	<u>\$ 1,123,477</u>	<u>\$ 12,696,451</u>

City of Waterloo, Iowa

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended June 30, 2012

	Special Revenue			
	Library Tax Levy	Community Development Block Grant	Section 108 Loan Program	Road Use Tax
Revenues:				
Property taxes	\$ 552,312	\$ -	\$ -	\$ -
Other taxes	26,073	-	-	-
Licenses and permits	-	-	-	17,782
Investment income	149	-	259	-
Rent	-	-	-	-
Intergovernmental	-	3,715,075	-	6,469,897
Charges for services	-	151,836	-	64,711
Interfund charges for services	-	-	-	50,000
Miscellaneous	-	13,041	-	18,697
Total revenues	578,534	3,879,952	259	6,621,087
Expenditures:				
Current:				
Public safety	-	-	-	-
Public works	-	-	-	6,024,283
Culture and recreation	567,258	-	-	-
Community and economic development	-	3,814,291	-	-
General government	-	-	278	-
Total expenditures	567,258	3,814,291	278	6,024,283
Revenue over (under) expenditures	11,276	65,661	(19)	596,804
Other financing sources (uses), proceeds from sale of capital assets	-	-	-	-
Net change in fund balances	11,276	65,661	(19)	596,804
Fund balances (deficits), beginning of year	159,647	(50,175)	517,572	4,631,074
Fund balances, end of year	\$ 170,923	\$ 15,486	\$ 517,553	\$ 5,227,878

Special Revenue		
Housing Programs	Federal Aviation Agency Projects	Total
\$ -	\$ -	\$ 552,312
-	-	26,073
-	-	17,782
77	522	1,007
186,724	-	186,724
5,261,636	1,319,555	16,766,163
18,385	80,458	315,390
-	-	50,000
1,391	-	33,129
5,468,213	1,400,535	17,948,580
-	15,067	15,067
-	1,353,641	7,377,924
-	-	567,258
5,198,847	-	9,013,138
-	-	278
5,198,847	1,368,708	16,973,665
269,366	31,827	974,915
1,237	-	1,237
270,603	31,827	976,152
4,137,381	151,902	9,547,401
\$ 4,407,984	\$ 183,729	\$ 10,523,553

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City of Waterloo, Iowa

Capital Projects Funds June 30, 2012

Capital Projects Funds account for the City's financial resources used for the acquisition or construction of major nonproprietary capital facilities. The City of Waterloo has capital projects funds as follows:

Nonmajor:

June 2007 GO Bonds Fund – This fund is used to account for proceeds from the 2007 general obligation bond sale until expended for the restricted purpose.

June 2008 GO Bonds Fund – This fund is used to account for proceeds from the 2008 general obligation bond sale until expended for the restricted purpose.

June 2009 GO Bonds Fund – This fund is used to account for proceeds from the 2009 general obligation bond sale until expended for the restricted purpose.

June 2010 GO Bonds Fund – This fund is used to account for proceeds from the 2010 general obligation bond sale until expended for the restricted purpose.

June 2011 GO Bonds Fund – This fund is used to account for proceeds from the 2011 general obligation bond sale until expended for the restricted purpose.

June 2012 GO Bonds Fund – This fund is used to account for proceeds from the 2011 general obligation bond sale until expended for the restricted purpose.

Rath Area Redevelopment Fund – This fund is used to account for resources used for the acquisition and redevelopment of real estate within the boundaries established as the Rath Area.

Vision Iowa Projects Fund – This fund is used to account for resources used for costs identified to the Vision Iowa group of projects.

Capital Improvements Funds – This fund is used to account for the use of resources on governmental capital projects not accounted for in other capital projects funds and are restricted for specific projects.

City of Waterloo, Iowa

**Combining Balance Sheet
Capital Projects Funds
June 30, 2012**

	June 2007 GO Bonds	June 2008 GO Bonds	June 2009 GO Bonds	June 2010 GO Bonds
Assets				
Cash and cash equivalents	\$ 134,564	\$ 252,370	\$ 1,121,826	\$ 2,148,359
Receivables, customer accounts	-	-	-	-
Due from other funds	-	-	-	-
Due from other governments:				
Iowa	-	-	-	-
Other	-	-	-	-
Total assets	\$ 134,564	\$ 252,370	\$ 1,121,826	\$ 2,148,359
Liabilities and Fund Balances (Deficit)				
Liabilities:				
Accounts payable	\$ -	\$ 66,852	\$ 12,006	\$ 63,947
Retainages payable	-	37,076	362	-
Due to other funds	-	-	-	-
Deferred revenue	-	-	-	-
Total liabilities	-	103,928	12,368	63,947
Fund balances (deficit):				
Restricted	134,564	148,442	1,109,458	2,084,412
Unassigned	-	-	-	-
Total fund balances (deficit)	134,564	148,442	1,109,458	2,084,412
Total liabilities and fund balances (deficit)	\$ 134,564	\$ 252,370	\$ 1,121,826	\$ 2,148,359

June 2011 GO Bonds	June 2012 GO Bonds	Rath Area Redevelopment	Vision Iowa Projects	Capital Improvements	Total
\$ 5,049,987	\$ 6,035,966	\$ 73,284	\$ -	\$ 334,734	\$ 15,151,090
-	-	-	-	1,821,589	1,821,589
-	5,804	-	513,943	20,206	539,953
-	-	-	529,757	-	529,757
-	-	-	9,299	-	9,299
\$ 5,049,987	\$ 6,041,770	\$ 73,284	\$ 1,052,999	\$ 2,176,529	\$ 18,051,688
\$ 446,526	\$ 134,140	\$ -	\$ 408,567	\$ 78,114	\$ 1,210,152
18,166	471	-	246,507	5,210	307,792
-	-	-	522,916	-	522,916
-	-	-	141,645	1,536,940	1,678,585
464,692	134,611	-	1,319,635	1,620,264	3,719,445
4,585,295	5,907,159	73,284	-	2,093,205	16,135,819
-	-	-	(266,636)	(1,536,940)	(1,803,576)
4,585,295	5,907,159	73,284	(266,636)	556,265	14,332,243
\$ 5,049,987	\$ 6,041,770	\$ 73,284	\$ 1,052,999	\$ 2,176,529	\$ 18,051,688

City of Waterloo, Iowa

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances (Deficit)

Capital Projects Funds

Year Ended June 30, 2012

	June 2007 GO Bonds	June 2008 GO Bonds	June 2009 GO Bonds	June 2010 GO Bonds
Revenues:				
Investment income	\$ 359	\$ 752	\$ 1,793	\$ 3,455
Intergovernmental	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	359	752	1,793	3,455
Expenditures:				
Debt service:				
Bond issuance costs	-	-	-	-
Capital outlay	229,992	598,775	704,727	2,012,898
Total expenditures	229,992	598,775	704,727	2,012,898
Revenues over (under) expenditures	(229,633)	(598,023)	(702,934)	(2,009,443)
Other financing sources (uses):				
Transfers in	-	-	-	-
Bond premium	-	-	-	-
Issuance of long-term debt	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances (deficit)	(229,633)	(598,023)	(702,934)	(2,009,443)
Fund balances, beginning of year	364,197	746,465	1,812,392	4,093,855
Fund balances (deficit), end of year	\$ 134,564	\$ 148,442	\$ 1,109,458	\$ 2,084,412

June 2011 GO Bonds	June 2012 GO Bonds	Rath Area Redevelopment	Vision Iowa Projects	Capital Improvements	Total
\$ 6,921	\$ -	\$ 38	\$ -	\$ -	\$ 13,318
-	-	-	1,534,967	2,500	1,537,467
-	-	-	-	1,258,119	1,258,119
6,921	-	38	1,534,967	1,260,619	2,808,904
-	39,780	-	-	-	39,780
3,051,894	940,565	-	4,077,286	2,524,779	14,140,916
3,051,894	980,345	-	4,077,286	2,524,779	14,180,696
(3,044,973)	(980,345)	38	(2,542,319)	(1,264,160)	(11,371,792)
-	-	-	1,289,881	1,026,695	2,316,576
-	147,504	-	-	-	147,504
-	6,740,000	-	-	-	6,740,000
-	6,887,504	-	1,289,881	1,026,695	9,204,080
(3,044,973)	5,907,159	38	(1,252,438)	(237,465)	(2,167,712)
7,630,268	-	73,246	985,802	793,730	16,499,955
\$ 4,585,295	\$ 5,907,159	\$ 73,284	\$ (266,636)	\$ 556,265	\$ 14,332,243

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City of Waterloo, Iowa

Proprietary Funds

June 30, 2012

Enterprise Funds are used to account for all resources involved in the acquisition, operation, maintenance and debt service of governmental facilities and services that are supported by user charges. The City's Enterprise Funds are as follows:

Major:

Sanitary Sewer Fund – This fund accounts for the City's Sanitary Sewage Systems.

Nonmajor:

Sanitation Fund – This fund accounts for garbage collection services provided by the City.

City of Waterloo, Iowa

Fiduciary Funds

June 30, 2012

Fiduciary Funds account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The City of Waterloo has the following fiduciary fund:

Metropolitan Transit Agency – This fund is used to account for property taxes collected on behalf of the Metropolitan Transit Agency.

City of Waterloo, Iowa

Statement of Changes in Assets and Liabilities

Agency Fund

Year Ended June 30, 2012

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Metropolitan Transit Agency				
Assets, cash	\$ -	\$ 1,404,561	\$ 1,404,561	\$ -
Liabilities, due to private entities	\$ -	\$ 1,404,561	\$ 1,404,561	\$ -

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**City of Waterloo, Iowa
Statistical Section**

This part of the City of Waterloo's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

<u>Contents</u>	<u>Page</u>
Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	103
Revenue Capacity These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.	108
Debt Capacity These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	112
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	117
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the city provides and the activities it performs.	119

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The city implemented GASB Statement 34 in fiscal 2003; therefore, schedules presenting government-wide information include information beginning in that year.

City of Waterloo, Iowa
Net Assets by Component
Last Nine Fiscal Years
(accrual basis of accounting)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities									
Invested in capital assets, net of related debt	\$ 46,671,542	\$ 56,719,559	\$ 69,770,404	\$ 193,678,687	\$ 202,629,813	\$ 216,863,066	\$ 233,853,135	\$ 243,084,776	\$ 250,819,314
Restricted	27,827,667	29,460,969	34,279,423	22,213,054	25,583,429	32,652,537	36,648,414	28,098,845	31,552,558
Unrestricted	4,725,340	6,160,850	6,043,616	5,626,315	7,342,293	4,738,557	3,591,308	9,823,688	9,694,131
Total governmental activities net assets	\$ 79,224,549	\$ 92,341,378	\$ 110,093,443	\$ 221,518,056	\$ 235,555,535	\$ 254,254,160	\$ 274,092,857	\$ 281,007,309	\$ 292,066,003
Business-type activities									
Invested in capital assets, net of related debt	\$ 55,900,582	\$ 56,679,067	\$ 57,945,809	\$ 63,144,916	\$ 63,754,721	\$ 65,420,051	\$ 66,494,749	\$ 67,576,579	\$ 71,243,134
Restricted	6,086,695	4,969,352	6,300,746	3,334,062	3,182,802	3,171,308	3,178,807	3,170,694	1,655,694
Unrestricted	5,624,562	8,055,394	7,422,263	7,963,580	9,473,128	9,440,050	10,719,450	13,086,820	14,659,699
Total business-type activities net assets	\$ 67,611,839	\$ 69,703,813	\$ 71,668,818	\$ 74,442,558	\$ 76,410,651	\$ 78,031,409	\$ 80,393,006	\$ 83,834,093	\$ 87,558,527
Primary government									
Invested in capital assets, net of related debt	\$ 102,572,124	\$ 113,398,626	\$ 127,716,213	\$ 256,823,603	\$ 266,384,534	\$ 282,283,117	\$ 300,347,884	\$ 310,661,355	\$ 322,062,448
Restricted	33,914,362	34,430,321	40,580,169	25,547,116	28,766,231	35,823,845	39,827,221	31,269,539	33,208,252
Unrestricted	10,349,902	14,216,244	13,465,879	13,589,895	16,815,421	14,178,607	14,310,758	22,910,508	24,353,830
Total primary government net assets	\$ 146,836,388	\$ 162,045,191	\$ 181,762,261	\$ 295,960,614	\$ 311,966,186	\$ 332,285,569	\$ 354,485,863	\$ 364,841,402	\$ 379,624,530

City of Waterloo, Iowa
Changes in Net Assets
Last Nine Fiscal Years
(accrual basis of accounting)
(Page 1 of 2)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses									
Governmental activities:									
Public safety	\$ 20,214,741	\$ 22,484,306	\$ 25,251,052	\$ 26,046,236	\$ 26,214,669	\$ 26,719,053	\$ 28,612,482	\$ 29,629,282	\$ 30,037,249
Public works	14,829,494	13,689,867	11,579,825	11,265,784	21,705,472	22,435,723	22,839,814	23,276,707	23,297,561
Health and social services	439,033	251,534	331,759	258,818	268,761	260,584	244,594	257,618	278,589
Culture and recreation	6,121,952	6,425,956	6,786,963	8,059,963	8,408,694	9,512,453	9,951,066	10,080,005	10,515,120
Community and economic development	10,274,832	11,909,166	13,741,135	9,666,943	9,581,090	13,520,082	15,138,776	16,675,218	16,138,333
General government	2,935,962	2,783,145	3,415,216	3,903,632	4,511,057	5,150,029	4,548,726	4,860,959	4,219,355
Interest on long-term debt	2,410,195	2,540,869	2,625,800	2,728,225	2,782,119	2,880,205	2,736,194	2,639,047	2,459,710
Total governmental activities expenses	57,226,209	60,084,843	63,731,750	67,929,601	73,471,862	80,478,129	84,071,652	87,418,836	86,945,917
Business-type activities:									
Sanitary sewer	8,646,899	8,246,811	8,666,232	8,242,650	8,649,104	8,573,832	8,682,068	10,437,723	9,730,465
Sanitation	2,920,290	3,025,161	3,196,360	3,226,802	3,289,854	3,593,300	3,873,028	3,408,358	3,680,500
Total business-type activities expenses	11,567,189	11,271,972	11,862,592	11,469,452	11,938,958	12,167,132	12,555,096	13,846,081	13,410,965
Total primary government expenses	\$ 68,793,398	\$ 71,356,815	\$ 75,594,342	\$ 79,399,053	\$ 85,410,820	\$ 92,645,261	\$ 96,626,748	\$ 101,264,917	\$ 100,356,882
Program Revenue									
Governmental activities:									
Charges for services:									
Public safety	\$ 1,159,259	\$ 1,689,116	\$ 1,872,956	\$ 1,940,446	\$ 3,441,302	\$ 3,143,136	\$ 3,331,924	\$ 3,874,275	\$ 3,602,246
Public works	1,688,900	1,765,757	1,831,575	1,774,681	1,933,607	1,894,200	1,887,850	1,984,786	2,224,870
Culture and recreation	2,073,891	1,902,088	2,027,873	2,077,330	2,263,815	2,441,457	2,337,191	2,339,044	2,592,204
Other activities	89,454	216,203	637,103	580,948	1,361,824	1,139,772	1,125,370	1,229,991	1,268,316
Operating grants and contributions	16,531,573	15,780,383	18,358,119	16,568,953	14,018,130	16,803,356	18,592,551	16,376,376	16,603,449
Capital grants and contributions	4,548,472	3,970,432	6,241,861	5,911,499	8,609,193	13,787,329	14,938,736	9,832,416	10,720,735
Total governmental activities program revenue	26,091,549	25,323,979	30,969,487	28,853,857	31,627,871	39,209,250	42,213,622	35,636,888	37,011,820
Business-type activities:									
Charges for services:									
Sanitary sewer	9,585,766	9,496,202	9,905,507	9,321,295	9,598,454	9,628,876	11,185,490	13,283,908	13,147,754
Sanitation	3,072,299	3,210,265	3,201,266	3,274,550	3,294,443	3,349,978	3,398,533	3,446,332	3,572,238
Operating grants and contributions:									
Sanitary sewer	-	64,006	7,361	-	240,678	339,496	-	125,802	54,041
Sanitation	274,988	274,988	-	315,437	288,866	274,988	314,940	399,000	215,584
Capital grants and contributions:									
Sanitary sewer	483,456	115,481	311,303	799,265	127,092	106,200	-	81,302	82,443
Sanitation						3,000	-		560
Total business-type activities program revenue	13,416,509	13,160,942	13,425,437	13,710,547	13,549,533	13,702,538	14,898,963	17,336,344	17,072,620
Total primary government program revenue	\$ 39,508,058	\$ 38,484,921	\$ 44,394,924	\$ 42,564,404	\$ 45,177,404	\$ 52,911,788	\$ 57,112,585	\$ 52,973,232	\$ 54,084,440
Net (Expense)/Revenue									
Governmental activities	\$ (31,134,660)	\$ (34,760,864)	\$ (32,762,263)	\$ (39,075,744)	\$ (41,843,991)	\$ (41,268,879)	\$ (41,858,030)	\$ (51,781,948)	\$ (49,934,097)
Business-type activities	1,849,320	1,888,970	1,562,845	2,241,095	1,610,575	1,535,406	2,343,867	3,490,263	3,661,655
Total primary government net expense	\$ (29,285,340)	\$ (32,871,894)	\$ (31,199,418)	\$ (36,834,649)	\$ (40,233,416)	\$ (39,733,473)	\$ (39,514,163)	\$ (48,291,685)	\$ (46,272,442)

City of Waterloo, Iowa
Changes in Net Assets
Last Nine Fiscal Years
(accrual basis of accounting)
(Page 2 of 2)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Revenue and Other Changes in Net Assets									
Governmental activities:									
Taxes:									
Property taxes levied for general purposes	\$ 23,949,802	\$ 25,822,607	\$ 24,206,180	\$ 25,835,947	\$ 25,848,956	\$ 27,456,508	\$ 28,508,924	\$ 28,741,347	\$ 29,825,135
Property taxes levied for debt service	7,743,121	7,219,345	9,407,057	9,727,666	10,050,725	11,319,918	11,988,239	12,287,504	12,997,545
Other taxes	9,725,075	11,464,827	12,496,242	12,101,827	13,674,750	14,208,362	13,911,219	14,566,088	14,844,322
Investment earnings	661,458	668,736	1,276,389	1,924,494	1,432,651	426,353	170,946	152,078	54,485
Miscellaneous	3,073,954	2,847,102	3,128,460	4,030,419	3,900,343	6,556,363	5,189,217	2,879,152	3,315,471
Gain (loss) on sale of assets	116,629	(144,924)	-	-	-	-	1,827,508	-	-
Transfers	12,613	-	-	-	-	-	-	70,231	(44,167)
Total governmental activities	45,282,652	47,877,693	50,514,328	53,620,353	54,907,425	59,967,504	61,596,053	58,696,400	60,992,791
Business-type activities:									
Investment earnings	78,470	203,004	402,160	532,645	357,518	85,352	17,730	21,055	18,612
Gain (loss) on sale of assets	(34,206)	-	-	-	-	-	-	-	-
Transfers	(12,613)	-	-	-	-	-	-	(70,231)	44,167
Total business-type activities	31,651	203,004	402,160	532,645	357,518	85,352	17,730	(49,176)	62,779
Total primary government	\$ 45,314,303	\$ 48,080,697	\$ 50,916,488	\$ 54,152,998	\$ 55,264,943	\$ 60,052,856	\$ 61,613,783	\$ 58,647,224	\$ 61,055,570
Changes in Net Assets									
Governmental activities	\$ 14,147,992	\$ 13,116,829	\$ 17,752,065	\$ 14,544,609	\$ 13,063,434	\$ 18,698,625	\$ 19,738,023	\$ 6,914,452	\$ 11,058,694
Business-type activities	1,880,971	2,091,974	1,965,005	2,773,740	1,968,093	1,620,758	2,361,597	3,441,087	3,724,434
Total primary government	\$ 16,028,963	\$ 15,208,803	\$ 19,717,070	\$ 17,318,349	\$ 15,031,527	\$ 20,319,383	\$ 22,099,620	\$ 10,355,539	\$ 14,783,128

City of Waterloo, Iowa
Fund Balances - Governmental Funds
Last Nine Fiscal Years
(modified accrual basis of accounting)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund									
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 310,432	\$ 326,276
Restricted	-	-	-	-	-	-	-	3,602,691	3,438,392
Committed	-	-	-	-	-	-	-	662,415	-
Assigned	-	-	-	-	-	-	-	4,878,877	4,802,837
Unassigned	-	-	-	-	-	-	-	8,417,600	9,644,699
Reserved	2,106,686	2,048,163	1,841,389	2,159,691	3,074,869	2,367,516	3,064,085	-	-
Unreserved:									
Designated	2,166,703	4,073,524	5,186,521	5,131,230	4,577,679	4,720,531	5,077,047	-	-
Undesignated	3,783,989	4,285,725	5,679,449	6,946,759	7,438,418	8,152,625	8,610,737	-	-
Total general fund	<u>\$ 8,057,378</u>	<u>\$ 10,407,412</u>	<u>\$ 12,707,359</u>	<u>\$ 14,237,680</u>	<u>\$ 15,090,966</u>	<u>\$ 15,240,672</u>	<u>\$ 16,751,869</u>	<u>\$ 17,872,015</u>	<u>\$ 18,212,204</u>
All Other Governmental Funds									
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 208,100	\$ 297,516
Restricted	-	-	-	-	-	-	-	39,357,168	42,286,946
Committed	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	2,322,606	2,332,997
Unassigned	-	-	-	-	-	-	-	(5,150,315)	(7,161,884)
Reserved	838,562	994,790	1,576,334	2,103,658	2,633,730	2,923,228	2,786,146	-	-
Undesignated, reported in:									
Special revenue funds	9,773,272	11,584,768	12,385,708	13,021,323	16,846,339	17,918,742	16,410,755	-	-
Debt service funds	615,679	1,439,650	1,008,597	1,529,968	-	-	-	-	-
Capital project funds	11,434,780	11,624,349	15,962,472	16,440,553	17,205,128	14,259,781	12,144,579	-	-
Total all other governmental funds	<u>\$ 22,662,293</u>	<u>\$ 25,643,557</u>	<u>\$ 30,933,111</u>	<u>\$ 33,095,502</u>	<u>\$ 36,685,197</u>	<u>\$ 35,101,751</u>	<u>\$ 31,341,480</u>	<u>\$ 36,737,559</u>	<u>\$ 37,755,575</u>

City of Waterloo, Iowa
Changes in Fund Balances - Governmental Funds
Last Nine Fiscal Years
(modified accrual basis of accounting)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenue									
Property taxes	\$ 31,726,881	\$ 32,915,568	\$ 33,582,387	\$ 35,550,774	\$ 35,863,457	\$ 38,789,695	\$ 40,454,704	\$ 41,013,565	\$ 42,864,091
Other taxes	9,187,463	11,241,073	12,907,521	11,609,390	13,532,878	14,368,254	13,982,362	14,703,052	15,460,718
Licenses and permits	1,151,715	1,173,147	1,216,278	1,528,961	1,274,948	977,306	996,031	1,236,912	1,119,886
Investment income	661,458	668,736	1,276,389	1,924,494	1,432,651	426,353	170,946	152,078	54,485
Rent*	814,762	879,420	920,475	1,023,689	992,710	1,060,566	1,060,889	1,094,271	1,186,419
Intergovernmental	19,963,676	21,104,290	22,716,457	21,107,074	21,833,988	22,932,392	30,681,962	30,092,432	25,596,988
Charges for services*	5,048,840	4,980,587	5,429,979	5,554,760	5,767,327	5,963,660	5,932,437	6,397,007	6,748,285
Interfund charges for service	2,671,780	2,659,797	2,801,492	2,802,327	2,825,152	2,808,833	2,385,680	2,134,553	1,935,000
Special assessments	109,999	56,694	52,698	39,932	39,931	37,216	225,198	47,171	93,870
Miscellaneous	2,336,581	2,008,009	3,253,989	3,878,401	4,683,887	6,043,260	3,773,963	3,292,228	3,702,763
Total revenue	73,673,155	77,687,321	84,157,665	85,019,802	88,246,929	93,407,535	99,684,172	100,163,269	98,762,505
Expenditures									
Current:									
Public safety	20,081,214	22,140,431	24,487,582	25,074,830	25,958,017	25,941,016	26,947,910	27,686,410	29,272,717
Public works	17,121,845	18,582,433	20,508,737	22,688,730	15,354,726	23,846,845	27,635,226	19,761,835	25,565,737
Health and social services	517,555	325,147	401,647	332,431	346,169	333,706	316,974	325,730	346,952
Culture and recreation	6,506,123	6,576,723	6,875,715	7,385,038	7,683,720	8,844,296	9,264,689	8,960,633	9,396,914
Community and economic development	11,966,597	11,422,953	11,177,833	9,097,089	10,075,134	13,954,851	17,423,767	15,740,405	13,794,104
General government	3,501,031	3,261,058	3,698,896	4,128,315	4,539,873	5,532,557	5,097,361	5,623,650	4,956,104
Debt service									
Principal	6,471,606	6,399,291	6,551,624	7,353,618	8,134,849	7,698,818	8,783,299	9,565,662	8,623,207
Interest and fees	2,424,613	2,575,772	2,627,808	2,909,085	2,908,196	2,975,411	2,799,830	2,623,038	2,536,705
Capital projects	7,820,334	7,150,058	9,570,650	11,035,051	20,405,512	16,639,618	15,128,719	11,792,357	14,140,916
Total expenditures	76,410,918	78,433,866	85,900,492	90,004,187	95,406,196	105,767,118	113,395,775	102,079,720	108,633,356
Revenue over (under) expenditures	(2,737,763)	(746,545)	(1,742,827)	(4,984,385)	(7,159,267)	(12,359,583)	(13,731,603)	(1,916,451)	(9,870,851)
Other financing sources (uses)									
Transfers in	7,226,431	8,484,336	10,433,905	10,871,913	13,447,647	15,295,255	14,434,303	13,368,149	14,206,860
Transfers out	(7,213,818)	(8,484,336)	(10,433,905)	(10,871,913)	(13,447,647)	(15,295,255)	(14,434,303)	(13,297,918)	(14,206,860)
Insurance proceeds	-	-	-	-	-	1,421,521	1,734,450	138,157	19,968
Proceeds from sale of assets	197,945	119,573	232,328	88,102	41,491	74,294	2,243,301	221,807	-
Capital lease obligations incurred	436,266	-	-	-	-	-	-	-	-
Refunding bonds issued	2,705,000	2,720,000	-	7,995,000	3,935,000	4,271,100	4,240,000	5,500,000	4,200,000
Payment to refunded bond escrow agent	(2,648,652)	(2,667,302)	-	(7,932,132)	(3,917,230)	(4,200,992)	(4,172,380)	(5,586,483)	-
Proceeds from debt issued	10,150,000	6,000,000	9,100,000	8,526,127	9,661,649	9,400,000	7,500,000	7,735,081	6,740,000
Bond discounts and issue costs	(148,943)	(94,428)	-	-	60,280	(40,080)	(62,842)	353,883	269,088
Total other financing sources (uses)	10,704,229	6,077,843	9,332,328	8,677,097	9,781,190	10,925,843	11,482,529	8,432,676	11,229,056
Net change in fund balances	\$ 7,966,466	\$ 5,331,298	\$ 7,589,501	\$ 3,692,712	\$ 2,621,923	\$ (1,433,740)	\$ (2,249,074)	\$ 6,516,225	\$ 1,358,205
Debt service as a percentage of noncapital expenditures	13.0%	12.6%	12.0%	13.0%	14.7%	12.0%	11.8%	13.5%	11.8%

* For the fiscal years ended June 30, 2003 and 2004, some rents were included in charges for services and miscellaneous revenue on the Statement of Activities. They have been reclassified to rent on this schedule.

City of Waterloo, Iowa
Assessed and Taxable Value of Property
Last Ten Fiscal Years

Assessment Date January 1,	For Fiscal Year Ended June 30,	Residential Property	Commercial Property	Industrial Property	TIF Property	Other Property	Less: Military Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Total Assessed Value	Total Taxable Value as a Percentage of Assessed Value
2001	2003	837,053,686	551,766,201	96,112,125	47,929,362	127,688,371	9,308,934	1,651,240,811	18.37162	2,354,407,942	70.13%
2002	2004	839,572,381	576,211,617	96,108,365	49,231,256	114,239,978	9,258,112	1,666,105,485	18.90914	2,366,125,563	70.41%
2003	2005	893,839,054	672,183,148	97,124,065	64,558,282	112,393,854	8,992,261	1,831,106,142	18.78999	2,789,882,310	65.63%
2004	2006	894,181,940	667,846,702	99,012,385	63,981,335	107,833,856	8,509,114	1,824,347,104	19.15566	2,805,711,189	65.02%
2005	2007	957,337,336	668,759,754	102,622,530	91,641,046	108,515,161	8,409,864	1,920,465,963	18.84580	3,075,559,088	62.44%
2006	2008	965,742,730	680,175,443	101,833,850	95,440,962	106,356,577	8,117,232	1,941,432,330	18.76669	3,133,666,442	61.95%
2007	2009	1,021,046,822	766,647,219	98,127,515	125,534,846	109,339,414	7,908,493	2,112,787,323	18.36687	3,447,851,253	61.28%
2008	2010	1,080,004,413	787,580,318	99,231,835	134,668,232	110,644,404	7,754,888	2,204,374,314	18.30689	3,542,643,298	62.22%
2009	2011	1,119,328,144	786,637,586	99,943,010	136,188,661	106,874,812	7,498,605	2,241,473,608	18.26406	3,566,368,445	62.85%
2010	2012	1,166,201,221	781,318,790	100,090,080	150,383,839	111,996,683	7,253,351	2,302,737,262	18.53335	3,747,030,046	61.45%

Source: Black Hawk County Auditor.

Notes: (1) Does not include tax-exempt property. Tax rates are per \$1,000 of assessed value.

(2) Property tax on machinery and equipment was phased out during the period FYE2001 through FYE2003.

**City of Waterloo, Iowa
Property Tax Rates
Direct and Overlapping Governments
Last Ten Fiscal Years**

Fiscal Year	City of Waterloo				Black Hawk County				Schools			Total Direct & Overlapping Rates
	Operating Millage	Debt Service	Total City Millage	Total			Operating Millage	Debt Service	Total School Millage	Other		
				Operating Millage	Debt Service	County Millage						
2003	13.55586	4.81576	18.37162	7.01176	0.60721	7.61897	14.52456	1.00000	15.52456	1.17929	42.69444	
2004	14.26784	4.64130	18.90914	7.15152	0.59469	7.74621	14.85083	1.00000	15.85083	1.13876	43.64494	
2005	14.62934	4.16065	18.78999	6.90953	0.58284	7.49237	14.62496	1.00000	15.62496	1.36743	43.27475	
2006	15.04360	4.11206	19.15566	7.04780	0.56052	7.60832	14.99110	1.00000	15.99110	1.42197	44.17705	
2007	15.47706	3.36874	18.84580	6.83182	0.55784	7.38966	15.33395	1.00000	16.33395	1.34392	43.91333	
2008	15.33540	3.43129	18.76669	6.82613	0.58407	7.41020	15.74972	1.00000	16.74972	1.18405	44.11066	
2009	15.10748	3.25939	18.36687	6.35616	0.57975	6.93591	15.65725	1.00000	16.65725	1.36422	43.32425	
2010	15.01876	3.28813	18.30689	6.12831	0.57689	6.70520	15.45746	1.00000	16.45746	1.33721	42.80676	
2011	14.92433	3.33973	18.26406	6.22972	0.44212	6.67184	15.43697	1.00000	16.43697	1.38794	42.76081	
2012	15.16068	3.37267	18.53335	5.92415	0.67322	6.59737	15.28141	1.00000	16.28141	1.28109	42.69322	

Source: Black Hawk County Auditor.

**City of Waterloo, Iowa
Principal Taxpayers
Current Year and Nine Years Ago**

Employer	2012			2003		
	Assessed Value 01/01/2010	Rank	Percentage of Total Assessed Value	Assessed Value 01/01/2001	Rank	Percentage of Total Assessed Value
Mid American Energy	\$ 133,305,953	1	3.56%	\$ 94,737,838	2	4.02%
IOC Black Hawk County, Inc.	73,670,230	2	1.97%	--		--
GG and A Crossroads Center, LP/ Equitable Life Assurance in 2003	39,530,390	3	1.05%	25,779,520	4	1.09%
Deere and Company	28,300,210	4	0.76%	112,006,460	1	
Con Agra k/n/a Hunt Wesson, Inc.	26,580,220	5	0.71%	16,317,760	5	0.69%
Ferguson Enterprises, Inc.	24,732,360	6	0.66%			0.00%
Tyson Fresh Meats (formerly IBP, Inc.)	17,306,720	7	0.46%	35,471,050	3	1.51%
Bertch Cabinet Manufacturing	15,607,970	8	0.42%	14,435,450	7	--
Howard L. Allen Investments, Inc.	15,590,980	9	0.42%			0.00%
Qwest Corporation (formerly US West)	13,138,639	10	0.35%	14,566,751	6	--
HyVee Food Stores, Inc.	--		--	9,326,490	8	0.40%
Banco Mortgage Company	--		--	8,676,050	9	
Walmart Stores	--		--	8,627,190	10	0.37%
Total	<u>\$ 387,763,672</u>		<u>10.35%</u>	<u>\$ 339,944,559</u>		<u>8.08%</u>

Source: Official Bond Statements from Speer Financial, Inc.

**City of Waterloo, Iowa
Property Tax Levies and Collections
Last Ten Fiscal Years**

<u>Assessment Date January 1,</u>	<u>Fiscal Year Ended June 30,</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percent of Current Tax Collections To Tax Levy</u>	<u>Delinquent Tax Collections</u>	<u>Total Tax Collections</u>	<u>Percent of Total Tax Collections To Tax Levy</u>
2000	2002	\$ 26,384,840	\$ 25,866,384	98.04%	\$ 451,479	\$ 26,317,863	99.75%
2001	2003	28,020,783	28,022,406	100.01%	118,932	28,141,338	100.43%
2002	2004	29,033,374	29,059,188	100.09%	17,377	29,076,565	100.15%
2003	2005	31,690,701	31,509,489	99.43%	12,616	31,522,105	99.47%
2004	2006	32,344,654	32,344,856	100.00%	10,483	32,355,339	100.03%
2005	2007	33,117,028	33,098,938	99.95%	20,019	33,118,957	100.01%
2006	2008	33,302,685	33,292,118	99.97%	22,716	33,314,834	100.04%
2007	2009	35,238,473	35,092,505	99.59%	40,319	35,132,824	99.70%
2008	2010	36,645,462	36,619,212	99.93%	16,989	36,636,201	99.97%
2009	2011	37,312,210	37,186,887	99.66%	34,746	37,221,633	99.76%
2010	2012	38,703,447	38,469,916	99.40%	20,895	38,490,811	99.45%

Source: Black Hawk County Auditor's office.

Current year tax collections can exceed the total tax levy in certain instances, such as when property valuation adjustments are made after the tax levy certifications are completed. Information regarding changes to levies and years of delinquent payments is not available to the City.

City of Waterloo, Iowa
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	Governmental Activities				Business-Type Activities				Total Primary Government	Percentage of Personal Income*	Per Capita*
	General Obligation Bonds	Obligation Capital Loan Notes	Capital Leases	Other Debt	General Obligation Bonds	Revenue Bonds	Capital Leases	Other Debt			
2003	\$ 55,270,000	\$ 385,000	\$ 315,511	\$ 1,947,845	\$ 12,890,000	\$ 21,940,000	\$ 25,304	--	\$ 92,773,660	4.96%	\$ 1,349
2004	59,290,000	330,000	339,513	2,073,647	13,610,000	19,870,000	--	--	95,513,160	5.00%	1,389
2005	59,295,000	150,000	157,024	3,592,934	14,025,000	18,520,000	--	--	95,739,958	4.65%	1,393
2006	62,260,000	250,000	--	3,463,486	14,390,000	16,195,000	--	--	96,558,486	4.56%	1,405
2007	63,940,000	220,000	--	2,980,954	14,900,000	13,850,000	--	--	95,890,954	4.33%	1,395
2008	65,745,000	300,000	--	2,146,355	14,845,000	12,355,000	--	8,211	95,399,566	4.10%	1,388
2009	66,076,100	--	--	3,495,290	15,168,900	10,870,000	--	3,087	95,613,377	3.99%	1,391
2010	66,129,600	--	--	2,226,708	17,825,400	9,285,000	--	--	95,466,708	3.86%	1,389
2011	65,483,600	--	--	1,254,513	20,106,400	7,655,000	--	15,172	94,514,685	3.78%	1,382
2012	68,171,100	--	--	2,755,871	20,898,900	4,700,000	--	12,197	96,538,068	3.82%	1,411

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

* Personal income and population data can be found in the Schedule of Demographic and Economic Statistics. These ratios are calculated using personal income and population for the prior calendar year.

City of Waterloo, Iowa
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Total Assessed Value of Property</u>	<u>Percentage of Assessed Value of Property</u>	<u>Per Capita*</u>
2003	\$ 68,545,000	\$ 2,366,125,563	2.90%	\$ 997
2004	73,230,000	2,366,125,563	3.09%	1,065
2005	73,470,000	2,789,882,310	2.63%	1,069
2006	76,900,000	2,805,711,189	2.74%	1,119
2007	79,060,000	3,075,559,088	2.57%	1,150
2008	80,890,000	3,133,666,442	2.58%	1,177
2009	81,245,000	3,447,851,253	2.36%	1,182
2010	83,955,000	3,542,643,298	2.37%	1,221
2011	85,590,000	3,566,368,445	2.40%	1,251
2012	89,070,000	3,747,030,046	2.38%	1,302

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

* Population data can be found in the Schedule of Demographic and Economic Statistics.

City of Waterloo, Iowa
Direct and Overlapping Governmental Activities Debt
As of June 30, 2012

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
City of Waterloo direct debt	<u>\$ 91,917,240</u>	100.00%	<u>\$ 91,917,240</u>
Overlapping:			
Black Hawk County	41,790,000	46.90%	19,599,510
Hudson Community Schools	905,000	5.36%	48,508
Hawkeye Community College	<u>7,450,000</u>	27.52%	<u>2,050,240</u>
Subtotal, overlapping debt	<u>50,145,000</u>		<u>21,698,258</u>
Total direct and overlapping debt	<u><u>\$ 142,062,240</u></u>		<u><u>\$ 113,615,498</u></u>

Source: Black Hawk County Auditor

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Waterloo. This process recognizes that, when considering the city's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

City of Waterloo, Iowa
Legal Debt Margin Information
Last Ten Fiscal Years

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Debt Limit	\$ 120,526,268	\$ 121,093,664	\$ 136,617,416	\$ 140,285,559	\$ 153,777,954	\$ 156,683,322	\$ 172,392,563	\$ 178,318,422	\$ 178,318,423	\$ 187,351,502
Total net debt applicable to limit	70,833,660	75,643,160	77,219,958	80,363,486	82,040,954	83,044,566	84,743,377	85,224,685	86,859,685	91,838,068
Legal debt margin	<u>\$ 49,692,608</u>	<u>\$ 45,450,504</u>	<u>\$ 59,397,458</u>	<u>\$ 59,922,073</u>	<u>\$ 71,737,000</u>	<u>\$ 73,638,756</u>	<u>\$ 87,649,186</u>	<u>\$ 93,093,737</u>	<u>\$ 91,458,738</u>	<u>\$ 95,513,435</u>
Total net debt applicable to the limit as a percentage of debt limit	58.77%	62.47%	56.52%	57.29%	53.35%	53.00%	49.16%	47.79%	48.71%	49.02%
Legal Debt Margin Calculation for Fiscal Year 2012										
Estimated actual valuation (assessed) as of January 1, 2010	\$ 3,747,030,046									
Debt limit (5% of total estimated actual valuation)	187,351,502									
Debt applicable to debt limit:										
General obligation bonds	88,790,000									
General obligation capital loan notes	280,000									
Other debt	2,768,068									
Total net debt applicable to limit	<u>91,838,068</u>									
Legal debt margin	<u>\$ 95,513,435</u>									

Note: Under the State of Iowa Constitution, the city's outstanding general obligation debt should not exceed 5% of total assessed property value.

**City of Waterloo, Iowa
Sewer Revenue Bond Coverage
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Gross Revenue</u>	<u>Less: Applicable Operating Expenses</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service Requirements</u>	<u>Coverage</u>
2003	9,257,236	4,336,741	4,920,495	3,427,576	1.4356
2004	9,653,550	4,445,425	5,208,125	3,401,386	1.5312
2005	9,735,550	4,455,001	5,280,549	3,664,551	1.4410
2006	10,564,246	4,860,721	5,703,525	3,060,298	1.8637
2007	9,761,167	4,580,852	5,180,315	3,020,198	1.7152
2008	10,121,735	5,051,048	5,070,687	2,099,173	2.4156
2009	10,030,590	5,070,016	4,960,574	2,038,173	2.4338
2010	11,195,472	5,266,284	5,929,188	2,079,198	2.8517
2011	13,468,610	7,041,089	6,427,521	2,059,323	3.1212
2012	13,217,083	6,552,170	6,664,913	1,655,847	4.0251

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements. Gross revenue includes both operating and non-operating revenue. Operating expenses do not include interest, depreciation or amortization of bond issue costs.

**City of Waterloo, Iowa
Demographic and Economic Statistics
Last Ten Calendar Years**

<u>Year</u>	<u>Population¹</u>	<u>Personal Income</u>	<u>Per Capita Personal Income²</u>	<u>Median Age¹</u>	<u>Unemployment Rate³</u>	<u>School Enrollment⁴</u>
2002	68,747	\$ 1,869,093,436	\$ 27,188	35.9	5.0%	10,402
2003	68,747	1,911,235,347	27,801	35.9	5.8%	10,465
2004	68,747	2,057,735,204	29,932	35.9	6.1%	10,472
2005	68,747	2,117,888,829	30,807	35.9	5.3%	10,391
2006	68,747	2,216,265,786	32,238	35.9	4.3%	10,192
2007	68,747	2,326,329,733	33,839	35.9	4.3%	10,039
2008	68,747	2,396,932,902	34,866	35.9	4.7%	10,069
2009	68,747	2,475,029,494	36,002	35.9	6.8%	10,150
2010	68,406	2,501,812,638	36,573	35.9	7.3%	10,020
2011	68,406	2,524,386,618	36,903	35.9	7.1%	10,103

N/A = Not available.

Sources:

¹ 2000 and 2010 U.S. Census

² U.S. Department of Commerce, Bureau of Economic Analysis

³ Iowa Dept. of Revenue and Finance

⁴ Waterloo Community Schools

**City of Waterloo, Iowa
Principal Area Employers
Current Year and Nine Years Ago**

Employer	2012			2002		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Deere & Company	5,600	1	16.67%	5,200	1	14.61%
Wheaton Franciscan Health Care *	2,680	2	7.98%	2,479	3	6.96%
Tyson Fresh Meats (formerly IBP, Inc.)	2,500	3	7.44%	2,500	4	7.02%
Allen Memorial Hospital	2,080	4	6.19%	1,400	6	3.93%
University of Northern Iowa	1,850	5	5.51%	5,100	2	14.33%
Waterloo Community Schools	1,560	6	4.64%	1,300	7	3.65%
Area Education Agency 267	1,150	7	3.42%	1,000	10	2.81%
Hy-Vee	1,130	8	3.36%	1,200	9	3.37%
Target Regional Distribution Center	850	9	2.53%	--	--	--
GMAC Mortgage Corp.	805	10	2.40%	--	--	--
Bertch Cabinet Manufacturing	--	--	--	1,300	8	3.65%
Omega Cabinets	--	--	--	2,100	5	5.90%
Total	<u>20,205</u>		<u>60.13%</u>	<u>23,579</u>		<u>66.23%</u>

Source: Official Bond Statements from Speer Financial, Inc.

* Formerly known as Covenant Medical Center

City of Waterloo, Iowa
Full-Time Equivalent City Government Employees by Function/Program
Last Ten Fiscal Years

Function/Program	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Public Safety										
Police	134.0	126.0	132.0	130.0	130.0	128.0	131.0	135.0	139.0	138.0
Fire	119.0	117.0	117.0	121.0	115.0	118.0	113.0	116.5	114.5	112.5
Building Inspection	13.0	14.0	14.0	15.0	15.0	16.0	15.0	15.5	10.5	12.5
Public Works										
City Engineer	18.0	18.0	18.0	19.0	19.0	19.0	20.0	19.0	18.0	20.0
Traffic	15.0	17.0	16.0	12.5	13.5	12.0	13.0	12.0	12.0	12.0
Central Garage	11.0	10.5	9.5	9.5	9.5	10.0	10.0	8.0	9.0	9.0
Street	41.0	41.0	41.0	36.0	36.0	34.0	40.0	39.0	37.0	38.0
Airport	4.0	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	6.0
Health & Social Services										
Human Rights	5.0	5.0	3.0	3.0	3.0	2.0	3.0	3.0	3.0	3.0
Culture & Recreation										
Cultural & Arts	8.5	8.5	8.0	9.5	10.0	12.0	13.5	13.5	14.0	14.5
Library	25.5	24.0	24.5	25.0	25.5	24.0	24.5	25.0	24.5	24.5
Leisure Services	35.0	35.0	42.0	38.0	37.0	39.0	41.0	40.0	40.0	39.0
Community & Economic Development										
Community Planning & Development	23.0	25.0	27.0	26.0	25.0	24.0	24.0	24.0	24.0	24.0
General Government										
Mayor's Office	1.0	1.5	1.5	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Administrative Services/MIS	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
City Clerk & Finance	12.0	12.0	12.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0
City Attorney	1.0	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Human Resources	3.0	2.0	3.0	3.0	3.0	3.0	2.0	3.0	3.0	3.0
Facilities Maintenance	5.0	4.0	4.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Waste Management Services										
Sewer	31.1	30.1	28.1	30.1	30.1	30.1	30.1	29.0	32.0	35.0
Sanitation	12.9	12.9	12.9	12.9	13.9	13.9	13.9	13.0	15.0	14.0
Total	<u>520.0</u>	<u>512.5</u>	<u>522.5</u>	<u>516.5</u>	<u>511.5</u>	<u>511.0</u>	<u>520.0</u>	<u>521.5</u>	<u>521.5</u>	<u>525.5</u>

Source: City Human Resources Department records.

City of Waterloo, Iowa
Operating Indicators by Function/Program
Last Ten Fiscal Years
(Page 1 of 2)

Function/Program	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Public Safety										
Police *										
Traffic accidents	2,089	2,196	2,110	2,129	1,788	1,942	2,141	1,941	1,712	1,630
Cases	15,118	14,910	14,622	14,857	13,928	14,468	13,740	13,411	12,079	11,591
Citations	13,166	11,415	11,610	12,601	11,651	9,816	6,781	7,983	6,851	7,271
Calls for service	66,590	66,411	66,447	68,365	70,037	73,690	75,932	82,044	81,110	80,872
Total arrests	5,146	5,330	5,510	6,157	5,771	6,176	5,506	5,590	5,243	5,244
Fire										
Fire responses	5,831	5,614	5,536	5,631	5,759	6,223	5,208	4,885	4,238	4,307
Ambulance responses	6,442	6,685	6,656	6,744	7,030	7,503	7,234	6,928	5,328	6,062
Building Inspection										
Construction permits issued	9,396	10,168	8,988	8,448	9,124	8,961	8,143	8,657	9,386	8,012
Construction value of permits	\$ 75,434,613	\$ 102,794,224	\$ 106,704,462	\$ 110,122,334	\$ 181,082,614	\$ 119,894,709	\$ 74,920,243	\$ 82,650,598	\$ 103,199,063	\$ 124,803,841
Public Works										
Engineering										
Street reconstruction (miles)	3.09	2.56	1.94	3.39	1.94	1.57	2.55	2.45	1.98	2.90
Street resurfacing (miles)	26.22	29.72	29.83	31.30	17.60	13.57	18.63	12.42	14.15	12.64
Street Department										
Tons of salt used for streets	3,396.93	5,001.08	4,508.17	5,556.52	4,505.35	6,185.86	5,506.97	6,043.06	5,012.05	4,816.00
Man hours for road maintenance	71,530	71,530	73,390	75,580	72,800	66,560	71,448	71,448	72,800	68,640
Airport										
Commercial Enplanements	42,281	39,408	40,140	38,750	33,507	27,026	25,467	22,255	23,206	22,173
Aircraft take-offs and landings	42,301	41,919	42,690	41,717	39,288	35,728	33,209	27,285	25,312	24,868
Based aircraft	97	99	102	101	98	101	100	100	101	101
Health & Social Services										
Human Rights										
Civil Rights complaints										
New cases opened	70	62	61	75	74	109	62	74	78	95
Cases closed	8	65	81	29	58	63	182	88	76	103
Active cases at year-end	175	172	152	198	214	262	126	109	113	103
Culture & Recreation										
Leisure Services										
Young Arena facility usage										
Event Visitors	124,650	138,246	124,157	114,492	133,540	142,278	121,324	118,286	118,089	127,508
Recreational Visitors	135,690	136,066	137,207	136,520	139,824	138,285	138,541	143,370	153,018	164,315
Sports - youth programs	4,165	4,216	4,056	4,119	4,517	4,677	5,034	5,117	5,691	5,720
Sports - adult programs	1,222	1,172	1,216	1,158	1,277	1,261	1,461	1,665	1,621	1,620
Pool attendance	44,540	44,279	41,028	39,512	41,580	40,789	40,561	41,743	42,883	44,741
Golf rounds	116,401	113,968	105,939	102,131	95,851	86,268	93,932	95,898	87,173	97,032
Annual flowers grown for parks	25,288	24,536	25,368	23,520	21,768	21,765	22,880	28,008	24,984	22,488
Public Library										
Total Circulation	490,708	486,903	422,663	433,072	427,921	413,525	426,593	441,746	419,333	424,435
Total Library Visits	259,583	265,439	269,589	266,356	261,261	259,144	241,539	274,903	290,161	207,597
Waterloo Center for the Arts										
In House Visitors	102,741	96,668	97,926	98,897	99,097	104,499	125,351	118,541	113,411	119,404
Events, meetings, and programs	1,306	1,467	1,449	1,387	1,268	1,479	1,839	1,683	1,625	1,578

City of Waterloo, Iowa
Operating Indicators by Function/Program
Last Ten Fiscal Years
(Page 2 of 2)

Function/Program	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Community & Economic Development										
Planning and Zoning										
Planning commission agenda items	97	113	100	93	84	69	50	54	77	65
CURA applications received **	35	37	60	46	51	35	46	29	20	12
CURA improvements value	\$ 2,103,121	\$ 5,792,611	\$ 5,304,997	\$ 6,856,057	\$ 13,391,834	\$ 7,346,601	\$ 5,972,779	\$ 12,309,630	\$ 2,063,995	\$ 9,307,075
CLURA applications received***	-	-	-	-	-	-	-	-	-	6
CLURA improvements value	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,249,100
Community Development										
Down payment assistance	39	60	57	58	36	41	50	43	4	4
Home buyer education	202	256	203	188	168	193	183	147	-	-
Owner-occupied homes rehabilitated	26	19	24	35	28	46	36	10	32	46
Emergency repairs (including roofs)	29	45	52	58	36	34	38	44	39	45
Demolitions (residential & commercial)	7	9	10	7	8	19	20	27	11	20
Housing										
Actual vouchers	1,031	1,022	1,015	957	961	1,032	1,007	1,003	994	996
Public housing units	50	50	50	50	50	49	50	48	50	50
Family self sufficiency participants	105	98	101	74	65	75	59	49	53	54
Sewer										
Sewer system customers	25,416	25,524	25,716	25,728	25,637	25,843	25,769	25,565	25,450	25,707

Source: Various city departments

* Statistics for Police Department are for the calendar year ending within the fiscal year shown.

** Consolidated Urban Revitalization Area.

*** City Limits Urban Revitalization Area Started FY12

Door counter was broken for several months, so not all visitors could be counted.

N/A - not available

City of Waterloo, Iowa
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

Function/Program	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Public Safety										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Fire										
Stations	7	7	7	7	7	7*	7*	7*	7*	7*
Trucks and special vehicles	30	30	30	30	30	30	32	32	32	34**
Public Works										
Miles of streets - paved	360	360	352	352	354	354	356	357	364	364
Miles of streets - unpaved	65	65	74	74	74	74	73	73	72	72
Street lights	N/A	N/A	N/A	N/A	1,800	1,800	1,800	1,800	1,800	1,800
Traffic Signals	N/A	N/A	N/A	N/A	198	198	198	197	200	200
Airport runway lengths										
Runway 12/30	8,400	8,400	8,400	8,400	8,400	8,400	8,400	8,400	8,400	8,400
Runway 18/36	6,002	6,002	6,002	6,002	6,002	6,002	6,002	6,002	6,002	6,002
Runway 6/24	5,403	5,403	5,403	5,403	5,403	5,403	5,403	5,403	5,403	5,403
Culture & Recreation										
City parks	48	48	48	48	48	48	48	48	48	48
Golf courses	3	3	3	3	3	3	3	3	3	3
Swimming pools	2	2	2	2	2	2	2	2	2	2
Softball diamonds	23	23	23	23	23	23	23	23	23	23
Baseball diamonds	9	8	8	8	8	8	8	6	6	6
Baseball stadium	1	1	1	1	1	1	1	1	1	1
Softball complexes	1	1	1	1	2	2	2	2	2	2
Tennis courts	27	27	27	27	27	27	27	27	27	27
Ice arena	1	1	1	1	1	1	1	1	1	1
Soccer complex	1	1	1	1	1	1	1	1	1	1
Exposition plaza	0	0	0	0	0	0	1	1	1	1
Skatepark	1	1	1	1	1	1	1	1	1	1
Dog park	0	0	0	0	0	0	1	1	1	1
Amphitheater	0	0	0	0	0	0	0	0	0	1
Splash Park	0	0	0	0	0	0	0	0	0	1
Center for the Arts collection size	1,352	1,417	1,489	1,615	2,494	2,794	3,153	3,362	3,766	4,178
Library collection size	199,482	201,158	205,149	210,020	190,092	192,678	200,246	168,295	172,580	163,247
Sewer										
Miles of sanitary sewer	353	353	353	353	356	356	356	356	356	356

Source: Various city departments

* Effective July 1, 2007, fire station at the Airport being maintained by Airport maintenance personnel

** Added boats

N/A - not available

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City of Waterloo, Iowa

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012**

Federal Grantor/Pass-Through Grantor/Program Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
Department of Commerce			
Direct:			
Economic Adjustment Assistance: Disaster Recovery	N/A	11.307	\$ 418,363
Department of Housing and Urban Development			
Direct:			
Community Development Block Grants/Entitlement Grants	N/A	14.218	1,216,742
HOME Investments Partnerships Program	N/A	14.239	964,588
Title 1, VA-HUD Independent Agencies Appropriations Act for FY 2004, PL 108-199	N/A	14.251	68,351
Title 1, VA-HUD Independent Agencies Appropriations Act for FY 2005, PL 108-447	N/A	14.251	40,958
Title 1, VA-HUD Independent Agencies Appropriations Act for FY 2008, PL 110-161	N/A	14.251	56,154
ARRA - Homelessness Prevention Program	N/A	14.257	22,336
Fair Housing Assistance Program-State and Local	N/A	14.401	42,039
Public and Indian Housing	N/A	14.850	311,308
Public Housing Capital Fund	N/A	14.872	111,817
Section 8 Housing Choice Vouchers	N/A	14.871	4,787,525
Public Housing Family Self-Sufficiency under Resident Opportunity and Supportive Services	N/A	14.877	17,500
Lead Based Paint Hazard Control in Privately Owned Housing	N/A	14.900	505,808
Total direct			8,145,126
Indirect:			
Pass Through Iowa Department of Economic Development:			
Community Development Block Grants/State's Program	08-DRH-011	14.228	224,193
	08-DRH-211	14.228	550,282
	08-DRB-205	14.228	178,330
	08-NSP-018	14.228	125,521
	11-NSP-018	14.228	113,823
	08-DRMH-246	14.228	26,191
Disaster Recovery Infrastructure	08-DRI-078	14.228	238,516
	08-DRI-277	14.228	163,521
Total indirect			1,620,377
Total Department of Housing and Urban Development			9,765,503
Department of Justice			
Direct:			
Bulletproof Vest Partnership Program	N/A	16.607	31,956
Public Safety Partnership and Community Policing Grants	N/A	16.710	53,984
ARRA - Public Safety Partnership and Community Policing Grants	N/A	16.710	390,968
Edward Byrne Memorial Justice Assistance Grant Program	N/A	16.738	73,553
ARRA - Recovery Act/Byrnes/JAG Grant	N/A	16.804	262,881
Total direct			813,342

(Continued)

City of Waterloo, Iowa

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
Department of Justice (Continued)			
Indirect:			
Pass Through Crime Victims Assistance Division: Federal Violence Against Women Act Contract	VW-12-76B	16.588	35,223
Pass Through Office of Drug Control Policy: Project Safe Neighborhoods	10-PSN-6482	16.609	11,317
Pass Through Iowa Department of Human Rights, Division of Criminal and Juvenile Justice Planning Enforcing : Juvenile Accountability Incentive Block Grants	N/A	16.727	3,200
Pass Through Office of Drug Control Policy: ARRA - Byrne/Iowa - Justice Assistance Grant	09-JAG/ARRA-16993C 10-JAG/ARRA-42075	16.803 16.803	344,708 2,412
Total indirect			<u>396,860</u>
Total Department of Justice			<u>1,210,202</u>
Department of Transportation			
Direct:			
Federal Aviation Administration: Airport Improvement Program	N/A N/A N/A N/A N/A	20.106 20.106 20.106 20.106 20.106	61,292 (134) 424,923 600,589 87,971
Total direct			<u>1,174,641</u>
Indirect:			
Federal Highway Administration Pass Through Iowa Department of Transportation: Highway Planning and Construction	NHSX-63-6(69)--3H-07 STP-U-8155(689)--70-07 STP-U-8155(711)--70-07 STP-U-8155(714)--70-07 SRTS-U-8155(718)--8U-07 STP-U-8155(719)--70-07 STP-U-8155(710)--70-07 STP-E-8155(721)--8V-07	20.205 20.205 20.205 20.205 20.205 20.205 20.205 20.205	331,892 (1,688) 1,281,494 149,272 18,720 60,017 23,321 321,896
Recreational Trails Program	NRT-NT08(001)--9G-07	20.219	68,921
National Highway Traffic Safety Administration Pass Through Iowa Department of Public Safety Governor's Traffic Safety Bureau Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	PAP-11-410 Task 82 PAP-12-410 Task 77	20.601 20.601	9,240 31,355
Total indirect			<u>2,294,440</u>
Total Department of Transportation			<u>3,469,081</u>

(Continued)

City of Waterloo, Iowa

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
National Foundation on the Arts and the Humanities			
Indirect:			
National Endowment for the Humanities Pass Through Iowa Arts Council Promotion of the Humanities Federal/State Partnership	OSP 1420 FY07, FY08, FY09	45.129	<u>17,221</u>
Environmental Protection Agency			
Direct:			
Brownfield Assessment & Cleanup Cooperative Agreements	N/A	66.818	<u>443</u>
Department of Energy			
Direct:			
ARRA - Energy Efficiency and Conservation Block Grant Program	N/A	81.128	<u>235,623</u>
Department of Education			
Indirect:			
Pass Through Iowa Public Television Ready-to-Learn Television Grant		84.295	<u>7,995</u>
Department of Health and Human Services			
Direct:			
Injury Prevention and Control Research and State and Community Based Programs	N/A	93.136	<u>28,682</u>
Department of Homeland Security			
Indirect:			
Pass Through Iowa Homeland Security and Emergency Management Division:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	013-82425-00 DR 1763	97.036	270,699
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	013-82425-00 DR 1930	97.036	8,202
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	013-82425-00 DR 1930	97.036	(11,730)
Hazard Mitigation Grant	HGMP 1763-DR-IA	97.039	78,572
Law Enforcement Terrorism Prevention Program	FFY2008-GE-T8-2008-012	97.067	(111)
Law Enforcement Terrorism Prevention Program	FFY2009-SS-T9-0034-08	97.067	83,299
Law Enforcement Terrorism Prevention Program	FFY2010-SS-T00031-09	97.067	196,414
Total Department of Homeland Security			<u>625,345</u>
Total Expenditures of Federal Awards			<u><u>\$ 15,778,458</u></u>

See Notes to Schedule of Expenditures of Federal Awards.

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City of Waterloo, Iowa

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2012

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Waterloo, Iowa. The schedule of expenditures of federal awards does not include the federal grant activity of the City's discretely presented component units. All federal awards received directly from federal agencies, as well as federal awards passed through other governmental agencies are included in this schedule. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, 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. Program expenditures include only amounts subject to reimbursements from the grantor agency or program income; thus, they are net of local matching.

Note 2. Significant Accounting Policies

Revenue from federal awards is recognized when the City has done everything necessary to establish its right to revenue. In the governmental funds, revenue from federal grants is recognized when they become both measurable and available. Expenditures of federal awards are recognized in the accounting period in which the liability is incurred.

Note 3. Subrecipients

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Community Development Block Grants/Entitlement Grants	14.218	\$ 122,592
Community Development Block Grant	14.228	101,608
HOME Investment Partnerships Program	14.239	318,570
ARRA - Homeless Prevention Program	14.257	22,336
Lead Based Paint Hazard Controls in Privately-Owned Housing	14.900	38,990
Edward Byrne Memorial Justice Assistance Grant	16.738	14,066
Public Safety Partnership and Community Policing Grants	16.710	53,984
ARRA - Edward Byrne Memorial Justice Assistance Grant	16.803	152,800
ARRA - Recovery Act/Byrnes/SAG Grant	16.804	24,646

Note 4. Program 14.850

The City's blended component unit, Waterloo Housing Authority, has a long-term debt payable to the Federal Financing Bank (FFB). Each November 1, the City receives a debt subsidy of \$86,364 as a principal and interest payment on the loan. The City records the subsidy as revenue and an expenditure for debt service. On June 30, 2012, the principal balance on the loan was \$295,144. Since there are continuing compliance obligations regarding the loan, the principal balance is considered federal financial assistance. Federal expenditures for the program consisted of the following:

Operating subsidy	\$ 5,705
Debt subsidy	86,364
Program income	(75,905)
Subtotal cash assistance	16,164
Loan balance	295,144
Total	\$ 311,308

City of Waterloo, Iowa

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2012**

	Finding	Status	Corrective Action Plan or Other Explanation
Significant Deficiencies in Internal Control			
11-II-A	The City has an improper segregation of duties over the payroll cycle.	Not corrected	See corrective action plan at 12-II-A.
11-II-B	The City has improper segregation of duties over cash collections at locations outside of the City Clerk's office.	Not corrected	See corrective action plan at 12-II-B.
Findings and Questioned Costs for Federal Awards			
11-III-A	The City did not perform procedures or retain documentation to ensure a vendor was not suspended or debarred from receiving federal funds.	Corrected	
Other Findings Related to Required Statutory Reporting			
11-IV-F	The City is required to publish the minutes from a Council meeting within 15 days of the meeting. The City did not publish certain minutes within this time frame.	Not corrected	See corrective action plan at 12-IV-F.
11-IV-H	The Grants, Special Revenue Fund, and the Community Development Block Grant, Special Revenue Fund had deficit fund balances as of June 30, 2011.	Partially corrected	See corrective action plan at 12-IV-H.
11-IV-J	The City did not amend the airport ordinance to repeal the positive cash balance requirement. Through June 30, 2011, the accumulative cash deficit totaled \$858,520.	Not corrected	See corrective action plan at 12-IV-J.
11-IV-K	The City did not publish certain capital bidding notices and acceptances within the required timeframe. Bid notices are required within 4-20 days of public hearing. Bid acceptance is required within 4-45 days of filing the bid.	Not corrected	See corrective action plan at 12-IV-K.



**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***

To the Honorable Mayor and
Members of the City Council
City of Waterloo, Iowa
Waterloo, Iowa

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Waterloo, Iowa as of and for the year ended June 30, 2012, which collectively comprise the City of Waterloo's basic financial statements, and have issued our report thereon dated December 14, 2012. Our report includes a reference to other auditors. 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. Other auditors audited the financial statements of the Waterloo Water Works as of and for the year ended December 31, 2011 and the Waterloo Convention & Visitors Bureau, Inc. as of and for the year ended June 30, 2012, both discretely presented component units, as described in our report on the City of Waterloo, Iowa's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of Waterloo Convention & Visitors Bureau, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the City of Waterloo is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's 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 that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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, as items 12-II-A and 12-II-B, that we consider to be significant deficiencies internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 schedule of findings and questioned costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012, are based exclusively on knowledge obtained from procedures performed during our audit of the basic financial statements of the City. 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 interpretation of those statutes.

The City of Waterloo's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, City Council, others within the entity and appropriate regulatory or oversight bodies and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in black ink that reads "McGladrey LLP". The signature is written in a cursive, flowing style.

Davenport, Iowa
December 14, 2012



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

To the Honorable Mayor and
Members of the City Council
City of Waterloo, Iowa
Waterloo, Iowa

Scope

The City of Waterloo, Iowa's basic financial statements include the operations of the Waterloo Water Works and the Waterloo Convention & Visitors Bureau, Inc. discretely presented component units which did not have a single audit performed for their fiscal years ended December 31, 2011 and June 30, 2012, respectively. Our audit described below does not include the operations of the Waterloo Water Works or the Waterloo Convention and Visitors Bureau, Inc. because these discretely presented component units were audited by other auditors.

Compliance

We have audited the City of Waterloo, Iowa's compliance 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, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City'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 of the City's compliance with those requirements.

In our opinion, the City 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, 2012.

Internal Control Over Compliance

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

A deficiency in 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 reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, City Council, others within the entity, appropriate regulatory or oversight bodies, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in black ink that reads "McGladrey LLP". The signature is written in a cursive, flowing style.

Davenport, Iowa
December 14, 2012

City of Waterloo, Iowa

Schedule of Findings and Questioned Costs Year Ended June 30, 2012

I. Summary of the Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiencies identified?
- Noncompliance material to financial statements noted?

<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> None Reported
<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?
- Significant deficiencies identified?

<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported

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

- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
------------------------------	--

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
14.239	HOME Investments Partnerships Program
14.871	Section 8 Housing Choice Vouchers
14.900	Lead Based Paint Hazard Control in Privately Owned Housing
16.710	Public Safety Partnership & Community Policing Grants
16.710	ARRA - Public Safety Partnership & Community Policing Grants
	Justice Assistance Grant (JAG) Program Cluster:
16.738	Edward Byrne Memorial JAG Program
16.803	ARRA - Byrne/Iowa - JAG
16.804	ARRA - Recovery Act/Byrne/JAG Grant

Dollar threshold used to distinguish between type A and type B programs: \$473,353

Auditee qualified as low-risk auditee?

<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
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(Continued)

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2012

II. Findings Relating to the Financial Statement Audit as Required to be Reported in Accordance With Generally Accepted Government Auditing Standards.

A. Internal Control

12-II-A

Finding: The City has inadequate segregation of duties over the payroll cycle.

Criteria: A good internal control system contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Condition: The City Clerk and Deputy City Clerk have the ability to create a new employee, process and approve payroll, print checks and are the only ones with access to download the direct deposit information from the payroll software to the bank. In addition these employees can make changes to the payroll master file including pay rates, employee addresses, deductions, etc. an independent employee reviews a payroll edit/change report to supporting documentation. A payroll report is sent to Department Heads to review each pay period. However, this report only includes hours worked and not dollar amounts. We stress the importance of maintaining the independent review of the payroll edit and change report to supporting documentation.

Context: Pervasive to payroll transactions.

Effect: Transaction errors could occur and not be detected in a timely manner.

Cause: The City has not assigned duties with the payroll cycle to achieve an adequate segregation of duties.

Recommendation: We recommend the City investigate alternative solutions to segregating the payroll functions so the same individual does not have the capability of initiating, processing or approving the payroll transactions.

Response and Corrective Action Plan: The City is investigating alternatives to improve segregation of duties where the benefits exceed the cost of implementing the procedures.

12-II-B

Finding: The City has inadequate segregation of duties over cash collections at locations outside of the City Clerk's Office namely at Young Arena, Municipal golf courses, and at the Waterloo Regional Airport.

Criteria: A good internal control system contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion

Condition: Several outside departments have an employee with the ability to collect, reconcile, and deposit cash receipts in which there is not an adequate independent review of this process or other compensating controls in place.

(Continued)

City of Waterloo, Iowa

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2012

Context: Pervasive to certain cash collections outside of the City Clerk's Office.

Effect: Transaction errors could occur and not be detected in a timely manner.

Cause: The City does not have adequate compensating controls in place to mitigate the lack of segregation of duties at these outside departments.

Recommendation: We recommend the City investigate alternative solutions to segregating the cash receipts functions so the same individual does not have the capability of initiating, processing or approving the cash receipt transactions.

Response and Corrective Action Plan: The City is investigating alternatives to improve the segregation of duties in various locations where the benefit exceeds the cost of implementing the procedures.

B. Compliance findings

None reported.

III. Findings and Questioned Costs for Federal Awards.

A. Internal Control

None reported.

B. Compliance Findings

None reported.

IV. Findings Related to Statutory Reporting

12-IV-A Certified Budget

Expenditure/expenses during the year ended June 30, 2012, did not exceed the budgeted amounts.

12-IV-B Questionable Disbursements

No questionable disbursements were noted.

12-IV-C Travel Expenses

No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

12-IV-D Business Transactions

No material business transactions between the City and City officials or employees were noted.

(Continued)

City of Waterloo, Iowa

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2012

12-IV-E Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions.

12-IV-F Council Minutes and Resolutions

We noted no transactions where the required Council approval was not obtained. However the City did not publish Council minutes from certain meetings timely.

Finding: The City is required to publish the minutes from a Council meeting within 15 days of the meeting. The minutes for the September 12, 2011, November 21, 2011, March 26, 2012, May 21, 2012 and June 25, 2012 meetings were published after 15 days and up to 105 days after the council meetings. The minutes for the March 26, 2011, May 21, 2011 and June 25, 2012 meetings did not include a summary of all receipts and were published at a later date.

Recommendations: The City should publish minutes within 15 days of Council Meetings as required by the Code of Iowa.

Response and Corrective Action Plan: The City will begin publishing Council minutes in a timely manner.

12-IV-G 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 City's investment policy were noted.

12-IV-H Deficit Balances

Finding: The following funds had deficit balances as of June 30, 2012:

Grants, Special Revenue	\$5,343,732
Vision Iowa Projects, Capital Projects Fund	\$266,636

Recommendations: The City should investigate alternatives to eliminate these deficits in order to return the funds to sound financial positions.

Response and Corrective Action Plan: The Grants, Special Revenue Fund and the Community Development Block Grant, Special Revenue Fund carry deficit fund balances due to timing delays in receiving grant reimbursements. Most grants that the City receives require the City request and receive reimbursement from the granting agencies only after the City has expended the funds. This creates a temporary deficit in the funds. Because the City's books are maintained on an accrual basis, expenses are recorded for invoices that may not be paid until after year-end. The City can not request reimbursements until after the invoices are paid, creating temporary timing deficits.

The City continues to investigate alternatives for shortening the turnaround time between spending grant funds and receiving reimbursements where possible.

(Continued)

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2012

12-IV-I Revenue Bonds

No instances of noncompliance noted regarding the provisions of the revenue bond indentures. Information required by sewer revenue bond resolutions is reported in the statistical section.

12-IV-J Airport Ordinance

Finding: The City adopted ordinance number 4400 on December 13, 1999 which established an Airport Board of Directors and requires the Board to "Maintain a positive cash balance at all times in airport operations." Airport operations are accounted for in the General Fund (Fund 010), Airport Commission Department (Department number 29), Airport Administration Activity (activity number 7700). Through June 30, 2012, the accumulative cash deficit totaled \$841,437.

Recommendations: To ensure the City is in compliance with its own ordinances, we recommend that the City either provide airport operations with additional cash resources to enable it to achieve and maintain a positive cash balance or amend the ordinance to repeal the positive cash balance requirement.

Response and Corrective Action Plan: It is the City's intent at this time to continue to require the positive cash balance, although City management realizes that the Airport may not be able to maintain that balance due to current economic conditions.

12-IV-K Capital Bidding

Finding: The City is required to publish public notice of hearings and acceptance of contract bids. Per Iowa Code Chapter 26.12, the City must publish notice of the hearing not less than 4 days and not more than 20 days from the public hearing. Per Iowa Code Chapter 26.3, the City is also required to publish notice that they are accepting bids for capital projects not less than 4 days and not more than 45 days prior to the date of filing bids. In 3 of the 12 capital projects tested, the City failed to publish neither the notice of the hearing nor the notice of accepting bids until 3 days before the public hearing.

Recommendation: The City should publish the date of the hearing more than 4 days but less than 20 days prior to the public hearing. The City should also post notice that the City is accepting bids more than 4 days but less than 45 days prior to the filing date of capital project bids.

Response and Corrective Action Plan: The City will begin publishing the notices of hearings and bids within the acceptable time frame as required by Iowa Law.

City of Waterloo, Iowa

Corrective Action Plan Year Ended June 30, 2012

Current Number	Comment	Corrective Action Plan	Anticipated Date of Completion	Contact Person
Significant Deficiencies in Internal Control				
12-II-A	The City has inadequate segregation of duties over the payroll cycle.	See corrective action plan at 12-II-A.	June 2013	Michelle Weidner, CFO
12-II-B	The City has inadequate segregation of duties over cash collections at locations outside of the City Clerk's office.	See corrective action plan at 12-II-B.	June 2013	Michelle Weidner, CFO
Other Findings Related to Required Statutory Reporting				
12-IV-F	The City is required to publish the minutes from a Council meeting within 15 days of the meeting. The City did not publish within this time frame.	See corrective action plan at 12-IV-F.	June 2013	Michelle Weidner, CFO
12-IV-H	The Grants, Special Revenue Fund, and the Vision Iowa Projects, Capital Projects Fund had deficit fund balances as of June 30, 2012.	See corrective action plan at 12-IV-H.	June 2013	Michelle Weidner, CFO
11-IV-J	The City did not amend the airport ordinance to repeal the positive cash balance requirement. Through June 30, 2011, the accumulative cash deficit totaled \$858,520.	See corrective action plan at 11-IV-J.	June 2013	Michelle Weidner, CFO
12-IV-K	The City did not publish capital bidding notices and acceptances within the required timeframe. Bid notices are required within 4-20 days of public hearing. Bid acceptance is required within 4-45 days of filing the bid.	See corrective action plan at 12-IV-K.	June 2013	Michelle Weidner, CFO