

**WATERLOO COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2014**

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Introductory Section

Board of Education and School District Officials

As of June 30, 2014

Name	Title	Term Expires
Board of Education		
(Before September, 2013 Election)		
Mike Young	President	September, 2015
Bernice Richard	Vice President	September, 2013
Sue Flynn	Board Member	September, 2015
Mike Kindschi	Board Member	September, 2013
Shanlee McNally	Board Member	September, 2013
Lyle Schmitt	Board Member	September, 2015
Andrea Sparks	Board Member	September, 2015
(After September, 2013 Election)		
Mike Young	President	September, 2015
Shanlee McNally	Vice President	September, 2017
Sue Flynn	Board Member	September, 2015
Mike Kindschi	Board Member	September, 2017
Lyle Schmitt	Board Member	September, 2015
Andrea Sparks	Board Member	September, 2015
Angela Weekley	Board Member	September, 2017
School Officials		
Dr. Gary Norris	Superintendent	Retired June 30, 2014
Pam Arndorfer	District Secretary	2014
Michael Coughlin	District Treasurer	2014
Steve Weidner	Attorney	Indefinite
Timothy Luce	Attorney	Indefinite

Financial Section



Independent Auditor's Report

Board of Education
Waterloo Community School District
Waterloo, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Waterloo Community School District, Waterloo, Iowa, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Waterloo Community School District as of June 30, 2014, and the respective changes in financial position and cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and the schedule of funding progress for the retiree health plan on pages 4 through 13, 42 and 43 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Waterloo Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the six years ended June 30, 2008 through June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements. The financial statements for the years ended June 30, 2005 through June 30, 2007 (which are not presented herein) were audited by other auditors in accordance with the standards referred to in the third paragraph of this report who expressed unmodified opinions on those financial statements. The supplementary information on pages 44 through 54, including the schedule of expenditures of federal awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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 our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated October 31, 2014 on our consideration of Waterloo Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Waterloo Community School District's internal control over financial reporting and compliance.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
October 31, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Waterloo Community School District provides this management's discussion and analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the District's financial statements, which follow this narrative overview and analysis.

Financial Highlights

- The assets of Waterloo Community School District exceeded its liabilities at the close of the most recent fiscal year by \$117,995,822 (net position).
- The General Fund cash, cash equivalents and investments increased \$322,889 and the General Fund balance increased \$2,266,750.
- The General Fund unspent balance ratio which measures the percent of authorized budget unspent increased from 6.8% in fiscal year 2013 to 8.2% in fiscal year 2014. This was due to an increase in state budget revenue while the District continued the commitment to fund additional teaching/coaching positions to support the need for improved student achievement.
- The State of Iowa granted a 2%+2% allowable growth rate for fiscal year 2014. 2% of the rate was permanent funding and 2% was one time only funding for fiscal year 2014. The state previously granted 0% allowable growth in fiscal years 2013 and 2012, 2% for fiscal years 2011 and 2010 and 4% per year for fiscal years 2006-2009. As a general rule, a growth rate of 6% is required to fully maintain the increases of the budget for all programs to remain constant. The past history of the growth rate set between 0% and 4% has posed many challenges to the District's educational delivery system.
- By 2008 State Legislative action, Local Option Sales and Service Tax (LOSST) which had been voter approved in every county, was changed to a state tax, Secure an Advanced Vision for Education (SAVE). The one-cent sales tax will be in effect until 2029 and subject to review and extension. The state collections will be received by the districts based upon enrollment times an estimated three-year average which will reduce the actual funds received in Black Hawk County by approximately 20%, but guarantees the longevity and ability for the District to bond against the proceeds for future facility projects. The Urban Education Network (20 largest districts in Iowa) are promoting the extension of SAVE during the 2015 Legislative session.
- In 2014, the District completed construction to remodel Hoover Middle School to provide new music classrooms, a new kitchen, lunch room/commons area and hallway expansion.
- Since the original LOSST/SAVE funding began in fiscal year 1999-2000, the District has constructed nine new elementary schools, one new middle school, extensively remodeled two elementary schools and completed other significant projects.

Walter Cunningham School of Excellence	2001-2002	New Building
East High School	2001-2002	Commons Area
West High School	2001-2002	Commons Area
Irving Elementary	2002-2003	New Building
Bunger Middle School	2003-2004	Classrooms Addition
Lincoln Elementary	2003-2004	New Building
Lou Henry Elementary	2004-2005	New Building
Hoover Middle School	2004-2005	Classrooms Addition
Kingsley Elementary	2005-2006	Remodel Building
Lowell Elementary	2004-2008	Remodel Building
Poyner Elementary	2006-2007	New Building
East High School	2006-2007	Auditorium Project
West High School	2006-2007	Locker Room Project
East High School	2007-2008	Locker Room Project
West High School	2008-2009	Auditorium Project
George Washington Carver Academy	2008-2009	New Building
Kittrell Elementary School	2008-2009	New Building
Highland Elementary School	2008-2009	New Building
Expo Alternative Education Center	2010-2011	Remodel Building
Kittrell Early Childhood Center	2010-2011	Remodel Building
West High School	2011-2012	Remodel Classrooms
Fred Becker Elementary	2011-2012	New Building
Orange Elementary	2012-2013	New Building
Hoover Middle School	2012-2014	Music and Commons Area

- The District property tax rate of \$15.72818 per thousand dollars of taxable property valuation remains below the average for the 25 largest districts within Iowa.

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

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-Wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and agency monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenue, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenue, expenses and changes in net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary assets and liabilities • Statement of changes in fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenue and expenses during year, regardless of when cash is received or paid	Revenue for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenue and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-Wide Financial Statements

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

The two government-wide statements report the District's net position and how it has changed. Net position is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position is an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional nonfinancial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show it is properly using certain revenue such as federal grants.

The District has three kinds of funds:

1. *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (a) how cash and other financial assets that can readily be converted to cash flow in and out and (b) the balances left at year end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

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

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

2. *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District's enterprise fund, one type of proprietary fund, is the same as its business-type activities, but provides more detail and additional information, such as cash flows. The District's enterprise fund is the School Nutrition Fund.

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

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

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments for the purpose of scholarships, school uniforms and reading materials for students within the District.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net position as of June 30, 2014 compared to June 30, 2013.

Figure A-3
Condensed Statement of Net Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total District</u>		<u>Total Change June 30, 2013-14</u>
	<u>June 30,</u>		<u>June 30,</u>		<u>June 30,</u>		
	<u>2014</u>	<u>2013, As Restated</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	
Current and other assets	\$ 78,537,503	\$ 79,318,347	\$ 277,718	\$ 123,045	\$ 78,815,221	\$ 79,441,392	(0.8)%
Capital assets	<u>179,328,330</u>	<u>178,076,064</u>	<u>1,078,456</u>	<u>1,062,701</u>	<u>180,406,786</u>	<u>179,138,765</u>	0.7
Total Assets	<u>\$ 257,865,833</u>	<u>\$ 257,394,411</u>	<u>\$ 1,356,174</u>	<u>\$ 1,185,746</u>	<u>\$ 259,222,007</u>	<u>\$ 258,580,157</u>	0.2
Current liabilities	\$ 18,070,499	\$ 20,057,728	\$ 160,482	\$ 108,585	\$ 18,230,981	\$ 20,166,313	(9.6)
Long-term liabilities	<u>80,663,744</u>	<u>82,637,899</u>	<u>—</u>	<u>—</u>	<u>80,663,744</u>	<u>82,637,899</u>	(2.4)
Total Liabilities	<u>\$ 98,734,243</u>	<u>\$ 102,695,627</u>	<u>\$ 160,482</u>	<u>\$ 108,585</u>	<u>\$ 98,894,725</u>	<u>\$ 102,804,212</u>	(3.8)
Deferred Inflows of Resources	<u>\$ 42,243,752</u>	<u>\$ 42,842,013</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 42,243,752</u>	<u>\$ 42,842,013</u>	(1.4)
Net Position							
Net investment in capital assets	\$ 109,082,308	\$ 106,089,868	\$ 1,078,456	\$ 1,062,701	\$ 110,160,764	\$ 107,152,569	2.8
Restricted	9,032,725	7,080,103	31	—	9,032,756	7,080,103	27.6
Unrestricted	<u>(1,227,195)</u>	<u>(1,313,200)</u>	<u>117,205</u>	<u>14,460</u>	<u>(1,109,990)</u>	<u>(1,298,740)</u>	14.5
Total Net Position	<u>\$ 116,887,838</u>	<u>\$ 111,856,771</u>	<u>\$ 1,195,692</u>	<u>\$ 1,077,161</u>	<u>\$ 118,083,530</u>	<u>\$ 112,933,932</u>	4.6

The District's total net position increased 4.6%, or approximately \$5,150,000, from the prior year. The largest portion of the District's net position is invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets.

Restricted net position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position increased approximately \$1,953,000, or 27.6%, over the prior year. The increase was primarily a result of increased sinking fund requirements for revenue bonds issued in prior years. The sinking fund is used to pay interest and principal when due.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased approximately \$189,000, or 14.5%. The increase in unrestricted net position was primarily a result of the District's decreased instruction expenses and increased state grant revenue in the General Fund.

Figure A-4 shows the changes in net position for the year ended June 30, 2014 compared to the year ended June 30, 2013.

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total District</u>		<u>Total Change 2013-14</u>
	<u>2014</u>	<u>2013, As Restated</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	
Revenue							
Program Revenue							
Charges for service	\$ 5,030,234	\$ 6,095,328	\$ 1,376,975	\$ 1,356,317	\$ 6,407,209	\$ 7,451,645	(14.0)%
Operating grants, contributions and restricted interest	26,420,632	23,905,197	4,508,190	4,203,271	30,928,822	28,108,468	10.0
Capital grants, contributions and restricted interest	353,198	264,917	—	94,772	353,198	359,689	(1.8)
General Revenue							
Property tax	42,476,135	41,296,023	—	—	42,476,135	41,296,023	2.9
Statewide sales, services and use tax	9,414,543	9,320,460	—	—	9,414,543	9,320,460	1.0
Unrestricted state grants	56,672,275	55,215,455	—	—	56,672,275	55,215,455	2.6
Unrestricted investment earnings	161,244	119,390	359	347	161,603	119,737	35.0
Total Revenue	<u>140,528,261</u>	<u>136,216,770</u>	<u>5,885,524</u>	<u>5,654,707</u>	<u>146,413,785</u>	<u>141,871,477</u>	3.2
Program Expenses							
Instruction	87,989,076	92,939,862	—	—	87,989,076	92,939,862	(5.3)
Support services	39,236,313	38,724,810	—	—	39,236,313	38,724,810	1.3
Noninstructional programs	7,039	7,312	6,003,358	5,827,994	6,010,397	5,835,306	3.0
Other	8,028,401	7,760,851	—	—	8,028,401	7,760,851	3.4
Total Expenses	<u>135,260,829</u>	<u>139,432,835</u>	<u>6,003,358</u>	<u>5,827,994</u>	<u>141,264,187</u>	<u>145,260,829</u>	(2.8)
Excess (Deficiency) Before Transfers							
	5,267,432	(3,216,065)	(117,834)	(173,287)	5,149,598	(3,389,352)	251.9
Transfers	<u>(236,365)</u>	<u>—</u>	<u>236,365</u>	<u>—</u>	<u>—</u>	<u>—</u>	0.0
Change in Net Position	5,031,067	(3,216,065)	118,531	(173,287)	5,149,598	(3,389,352)	251.9
Net Position - Beginning of Year	<u>111,856,771</u>	<u>115,072,836</u>	<u>1,077,161</u>	<u>1,250,448</u>	<u>112,933,932</u>	<u>116,323,284</u>	(2.9)
Net Position - End of Year	<u>\$ 116,887,838</u>	<u>\$ 111,856,771</u>	<u>\$ 1,195,692</u>	<u>\$ 1,077,161</u>	<u>\$ 118,083,530</u>	<u>\$ 112,933,932</u>	4.6

In fiscal year 2014, property tax and unrestricted state grants accounted for 70.6% of governmental activities revenue while charges for service and operating grants, contributions and restricted interest accounted for almost 100.0% of business-type activities revenue. The District's total revenue was approximately \$146.4 million, of which approximately \$140.5 million was for governmental activities and \$5.9 million was for business-type activities.

As shown in Figure A-4, the District as a whole experienced a 3.2% increase in revenue and a 2.8% decrease in expenses. Operating grants, contributions and restricted interest increased approximately \$2,820,354 and unrestricted state grants increased approximately \$1,457,000 to fund expenses. The decrease in expenses is related to less costs for regular instruction and special instruction.

Governmental Activities

Revenue for governmental activities was \$140,528,261 and expenses were \$135,260,829, which net of \$236,365 transfers out amounted to an increase in net position of \$5,031,067.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, noninstructional programs and other expenses for the year ended June 30, 2014 compared to the year ended June 30, 2013.

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

	<u>Total Cost of Services</u>		<u>Change 2013-14</u>	<u>Net Cost of Services</u>		<u>Change 2013-14</u>
	<u>2014</u>	<u>2013, As Restated</u>		<u>2014</u>	<u>2013, As Restated</u>	
Instruction	\$ 87,989,076	\$ 92,939,862	(5.3)%	\$ 58,390,684	\$ 64,666,910	(9.7)%
Support services	39,236,313	38,724,810	1.3	37,851,452	37,578,340	0.7
Noninstructional programs	7,039	7,312	(3.7)	7,039	7,312	(3.7)
Other	<u>8,028,401</u>	<u>7,760,851</u>	3.4	<u>7,207,590</u>	<u>6,914,831</u>	4.2
Total	<u>\$ 135,260,829</u>	<u>\$ 139,432,835</u>	(3.0)	<u>\$ 103,456,765</u>	<u>\$ 109,167,393</u>	(5.2)

For the year ended June 30, 2014:

- The cost financed by users of the District's programs was \$5,030,234.
- Federal and state governments and private entities subsidized certain programs with grants and contributions totaling \$26,773,830.
- The net remaining cost of governmental activities was financed with \$51,890,678 in property and other taxes, \$56,672,275 in unrestricted state grants and \$161,244 in unrestricted investment earnings.

Business-Type Activities

Revenue for business-type activities during the year ended June 30, 2014 was \$5,885,524, represent a 4.1% increase over the prior year, while expenses totaled \$6,003,358, a 3.0% increase over the prior year. The District's business-type activities include the School Nutrition Fund. Revenue of these activities was comprised of charges for service, federal and state reimbursements and grants and investment earnings.

- Business-type activities revenue and transfers exceeded expenses by \$118,531 for fiscal year 2014 and expenses exceeded revenue by \$173,287 for fiscal year 2013.
- Charges for service represent 23.4% of total revenue for fiscal year 2014 compared to 24.0% for fiscal year 2013. This represents the amount paid by students/staff for daily food service.
- Federal and state operating grants, included reimbursement for meals, payments for free and reduced lunches, commodities provided to the District and other miscellaneous grants, totaled \$4,508,190, or 76.6%, of total revenue. This is reflective of the District's population of "free and reduced" students, which was approximately 65% of total students.

INDIVIDUAL FUND ANALYSIS

As previously noted, Waterloo Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$19,500,360, above last year's ending fund balances as restated of \$17,682,026. The primary reason for the increase in combined fund balances at the end of fiscal year 2014 was a decrease in General Fund instruction expenditures and an increase in state funding received in the General Fund.

Governmental Fund Highlights

The General Fund is the chief operating fund of the District. At the end of fiscal year 2014, unassigned fund balance of the General Fund was \$1,280,291 while total fund balance increased to \$6,226,936.

The General Fund balance increased by \$2,266,750, or 57.2%, during the current fiscal year. The main reasons for this increase were a decrease in instruction expenditures and an increase in state funding received.

The Debt Service Fund balance increased from \$11,871,946 at the end of fiscal year 2013 to \$14,059,941 at the end of fiscal year 2014. Current year expenditures included bond interest and principal payments. The increase in fund balance is related to statewide sales, services and use tax revenue held and restricted for future bond interest and principal payments.

The Capital Projects Fund balance decreased from \$559,773 at the end of fiscal year 2013 to (\$2,420,169) at the end of fiscal year 2014 due to spending on various facilities acquisition and construction projects throughout the District and debt service requirements being in excess of statewide sales, services and use tax revenue and other revenue.

Proprietary Fund Highlights

School Nutrition Fund net position increased from \$1,077,161 as of June 30, 2013 to \$1,195,692 as of June 30, 2014, representing an increase of approximately 11%. The increase was primarily a result of increased federal reimbursements received.

BUDGETARY HIGHLIGHTS

The District adopts a budget in April for the following year and at the same time considers a budget amendment for expenditures for the current year. The District did not amend its original budget for fiscal year 2014.

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

The District's total revenue was \$2,791,758 less than total budgeted revenue, a variance of 1.9%. The revenue received did not vary significantly from budgeted amounts.

Total expenditures were \$10,359,761 less than total budgeted total expenditures, a variance of 6.7%. Expenditures did not vary significantly from budgeted amounts.

The certified budget and the District's total spending authority were not exceeded.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2014, the District had invested \$180,406,786, net of accumulated depreciation, in a broad range of capital assets, including land, buildings and improvements, land improvements, equipment, furniture and construction in progress. (See Figure A-6). This represents a net increase of 0.7% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense was \$5,102,377 for Governmental Activities and \$205,325 for Business-Type Activities.

The original cost of the District's capital assets was approximately \$243.6 million. Governmental funds account for approximately \$240.0 million with the remainder of approximately \$3.6 million accounted for in the Proprietary, School Nutrition Fund.

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total District</u>		<u>Total Change June 30, 2013-14</u>
	<u>June 30,</u>		<u>June 30,</u>		<u>June 30,</u>		
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	
Land	\$ 3,293,867	\$ 3,293,867	\$ —	\$ —	\$ 3,293,867	\$ 3,293,867	0.0%
Construction in progress	4,027,275	32,642,947	—	—	4,027,275	32,642,947	(87.7)
Buildings and improvements	160,899,873	130,334,707	—	—	160,899,873	130,334,707	23.5
Improvements other than buildings	6,530,859	6,847,605	—	—	6,530,859	6,847,605	(4.6)
Furniture and equipment	4,576,456	4,956,938	1,078,456	1,062,701	5,654,912	6,019,639	(6.1)
Total	<u>\$ 179,328,330</u>	<u>\$ 178,076,064</u>	<u>\$ 1,078,456</u>	<u>\$ 1,062,701</u>	<u>\$ 180,406,786</u>	<u>\$ 179,138,765</u>	0.7

The increase from fiscal year 2013 to fiscal year 2014 is due to completing work on several construction projects. The amount of construction in progress decreased by \$28,615,672. This decrease was capitalized at the various depreciable capital asset categories.

Construction in progress activities during the year ended June 30, 2013 included:

- New construction of Fred Becker Elementary
- New construction of Orange Elementary
- Renovation of Hoover Middle School commons and music wing
- Various roofing projects

Construction in progress activities during the year ended June 30, 2014 included:

- Renovation and addition at Hoover Middle School
- Various roofing projects
- Remodel of East High School elevator
- Renovation of Hoover Middle School Commons

Long-Term Debt

As of June 30, 2014, the District had \$76,524,022 of total long-term debt outstanding. This represents a decrease of 2.2% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

The Constitution of the State of Iowa limits the amount of debt districts can issue to 5% of the assessed value of all taxable property within the District. The District's outstanding debt is significantly below its constitutional debt limit of approximately \$209 million.

**Figure A-7
Outstanding Long-Term Debt**

	<u>Total District</u>		<u>Total Change June 30, 2013-14</u>
	<u>June 30,</u>		
	<u>2014</u>	<u>2013</u>	
Revenue bonds	\$ 76,109,539	\$ 77,809,539	(2.2)%
Unamortized bond premium	414,483	454,657	(8.8)
Total	<u>\$ 76,524,022</u>	<u>\$ 78,264,196</u>	(2.2)

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Beginning in 2008 and continuing in 2014, the United States, as well as the world, experienced financial upheaval and have struggled through a gradual recovery process. This has affected State of Iowa revenue and the ability to fund schools. At the height of economic decline, the Governor, in October, 2009, announced a 10% across-the-board cut reducing the District's budget by \$5.5 million. In response, after funding fiscal years 2006-2009 at 4% allowable growth, fiscal years 2010 and 2011 were funded at 2% allowable growth. As state budget struggles continued, fiscal years 2012 and 2013 funding was set at 0% allowable growth which required District budget reductions through noninstructional staffing and operational efficiencies. In the recovery process, allowable growth for fiscal year 2014 was set at 2%, plus an additional one-time payment of 2% of regular weighted enrollment. This increase in allowable growth increased cash received and the spending authority of the District for fiscal year 2014 and resulted in improved financial indicators. Fiscal year 2015 has again been funded at 4% allowable growth, enabling the District to continue support of student achievement programming and goals.
- In addition to the increased state budget funding, the Governor established funding for a fiscal year 2015 Educational Reform Grant. This program funds the support of instruction through teacher professional development along with teacher modeling and mentoring. Instructional coaches in math and literacy also support the goals of raising student achievement. Waterloo Community School District is part of the first round of schools to qualify for this \$309/student annual funding.
- To maintain adequate allowable growth is critical. In the recent years of recovery, growth in employee wages and benefits have outpaced state funding to schools. Salary and benefits represent approximately 78.2% of General Fund expenditures. Salary and benefit settlements, with any employee group, exceeding the rate of growth of state funding will have an adverse impact upon the District's General Fund budget.
- Budget shortfalls usually mean staff reductions, but the District has maintained all instructional positions to invest in student achievement goals. This resulted in a reduction of the authorized budget unspent balance for fiscal year 2013 and only allowed a slight increase for fiscal year 2014. The increased state budget funding for fiscal year 2015, along with the Education Reform Grant, will enable the District to regain financial stability.
- District enrollment declined approximately 300 students in 2007-2010 but is continuing to show recovery by increasing 85 students in the Fall of 2011, 83 students in the Fall of 2012, 188 students in the Fall of 2013 and 142 students in the Fall of 2014. Under Iowa's school funding formula, District funding is highly dependent upon District enrollment. Future enrollment stability is a critical element in maintaining a sound financial foundation. Enrollment increases have been spread across all grades, but strongest trends have occurred in the elementary grades.
- The major concern with enrollment is the graduation rate, almost 30% of students do not graduate with classmates and 20% do not graduate at all. The District has 100-150 students drop out each year. To address this, during the last five years, the District has expanded programs for at-risk students centered in the Alternative High School and expansion of on-line classes and a learning center at the local shopping mall.
- In 2013, the District started a major initiative to identify, design and construct a 21st century high school system with Career Technical Education as a major component to meet the needs of the students, businesses and industry in the Cedar Valley. Plans are in process of approval and funding avenues are being established in 2015.
- As a catalyst for future success of the District, the new Superintendent's qualifications specialize in student assessment and achievement through educational excellence.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

Statement of Net Position

As of June 30, 2014

	Governmental Activities	Business- Type Activities	Total
Assets			
Cash, cash equivalents and investments.....	\$ 29,835,103	\$ 135,145	\$ 29,970,248
Receivables, Net of Allowance for Uncollectible Amounts			
Property Tax			
Current year delinquent.....	460,836	—	460,836
Succeeding year.....	42,243,752	—	42,243,752
Accounts.....	569,892	—	569,892
Due from other governments.....	4,739,835	87,708	4,827,543
Note receivable - portion due within one year.....	55,992	—	55,992
Inventories.....	266,418	54,865	321,283
Prepaid items.....	206,667	—	206,667
Note receivable - portion due after one year.....	159,008	—	159,008
Capital assets, net of accumulated depreciation...	172,007,188	1,078,456	173,085,644
Capital assets not being depreciated.....	7,321,142	—	7,321,142
Total Assets	\$ 257,865,833	\$ 1,356,174	\$ 259,222,007
Liabilities, Deferred Inflows of Resources and Net Position			
Liabilities			
Accounts payable.....	\$ 1,393,076	\$ 59,085	\$ 1,452,161
Salaries and benefits payable.....	12,435,695	63,075	12,498,770
Advances from grantors.....	771,606	—	771,606
Due to other governments.....	1,709,414	—	1,709,414
Accrued interest payable.....	1,760,708	—	1,760,708
Unearned revenue.....	—	38,322	38,322
Long-Term Liabilities			
Portion Due Within One Year			
Revenue bonds, net of unamortized premium	2,694,734	—	2,694,734
Early retirement.....	420,000	—	420,000
Compensated absences.....	385,291	—	385,291
Portion Due After One Year			
Revenue bonds, net of unamortized premium	73,829,288	—	73,829,288
Compensated absences.....	128,431	—	128,431
Net OPEB liability.....	3,206,000	—	3,206,000
Total Liabilities	98,734,243	160,482	98,894,725
Deferred Inflows of Resources			
Unavailable property tax revenue.....	42,243,752	—	42,243,752
Net Position			
Net investment in capital assets.....	109,082,308	1,078,456	110,160,764
Restricted for			
Categorical funding.....	1,316,639	—	1,316,639
Debt service.....	6,021,233	—	6,021,233
Management levy purposes.....	28,597	—	28,597
Student activities.....	1,185,055	—	1,185,055
Physical plant and equipment.....	481,201	—	481,201
Farm to school grant.....	—	31	31
Unrestricted.....	(1,227,195)	117,205	(1,109,990)
Total Net Position	116,887,838	1,195,692	118,083,530
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 257,865,833	\$ 1,356,174	\$ 259,222,007

See accompanying notes to the financial statements.

Statement of Activities

Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenue			Net (Expenses), Revenue and Changes in Net Position		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
Instruction							
Regular	\$ 56,807,351	\$ 2,548,720	\$ 18,184,913	\$ —	\$ (36,073,718)	\$ —	\$ (36,073,718)
Special	28,362,154	283,527	6,471,703	—	(21,606,924)	—	(21,606,924)
Vocational	204,385	—	411,186	—	206,801	—	206,801
Other	2,615,186	1,698,343	—	—	(916,843)	—	(916,843)
Total Instruction	<u>87,989,076</u>	<u>4,530,590</u>	<u>25,067,802</u>	<u>—</u>	<u>(58,390,684)</u>	<u>—</u>	<u>(58,390,684)</u>
Support Services							
Student	3,907,318	—	—	—	(3,907,318)	—	(3,907,318)
Instructional staff	4,070,991	—	180,924	—	(3,890,067)	—	(3,890,067)
General administration	2,033,977	—	—	—	(2,033,977)	—	(2,033,977)
School administration	7,189,835	—	—	—	(7,189,835)	—	(7,189,835)
Business and central administration	4,264,491	—	—	—	(4,264,491)	—	(4,264,491)
Operation and maintenance of plant	12,703,457	487,788	—	353,198	(11,862,471)	—	(11,862,471)
Transportation	5,066,244	11,856	351,095	—	(4,703,293)	—	(4,703,293)
Total Support Services	<u>39,236,313</u>	<u>499,644</u>	<u>532,019</u>	<u>353,198</u>	<u>(37,851,452)</u>	<u>—</u>	<u>(37,851,452)</u>
Noninstructional Programs	<u>7,039</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(7,039)</u>	<u>—</u>	<u>(7,039)</u>
Debt Service							
Interest and fiscal charges	3,490,542	—	820,811	—	(2,669,731)	—	(2,669,731)
Depreciation (unallocated)*	4,537,859	—	—	—	(4,537,859)	—	(4,537,859)
Total Governmental Activities	<u>135,260,829</u>	<u>5,030,234</u>	<u>26,420,632</u>	<u>353,198</u>	<u>(103,456,765)</u>	<u>—</u>	<u>(103,456,765)</u>
Business-Type Activities							
Noninstructional Programs							
Food service operations	6,003,358	1,376,975	4,508,190	—	—	(118,193)	(118,193)
Total	<u>\$ 141,264,187</u>	<u>\$ 6,407,209</u>	<u>\$ 30,928,822</u>	<u>\$ 353,198</u>	<u>(103,456,765)</u>	<u>(118,193)</u>	<u>(103,574,958)</u>
General Revenue							
Property Tax Levied for							
General purposes					36,433,922	—	36,433,922
Management levy purposes					3,172,335	—	3,172,335
Capital outlay					2,869,878	—	2,869,878
Statewide sales, services and use tax					9,414,543	—	9,414,543
Unrestricted state grants					56,672,275	—	56,672,275
Unrestricted investment earnings					161,244	359	161,603
Transfers					(236,365)	236,365	—
Total General Revenue					<u>108,487,832</u>	<u>236,724</u>	<u>108,724,556</u>
Change in Net Position							
					5,031,067	118,531	5,149,598
Net Position - Beginning of Year, as Restated (Note 15)					111,856,771	1,077,161	112,933,932
Net Position - End of Year					<u>\$ 116,887,838</u>	<u>\$ 1,195,692</u>	<u>\$ 118,083,530</u>

* This amount excludes depreciation included in the direct expenses of the various programs.

Balance Sheet - Governmental Funds

As of June 30, 2014

	General	Debt Service	Capital Projects	Nonmajor	Total
Assets					
Cash, cash equivalents and investments.....	\$ 13,820,713	\$ 14,059,941	\$ 332,756	\$ 1,621,693	\$ 29,835,103
Receivables, Net of Allowance for Uncollectible Amounts					
Property Tax					
Current year delinquent.....	393,940	—	32,894	34,002	460,836
Succeeding year.....	36,412,278	—	2,831,482	2,999,992	42,243,752
Accounts	569,892	—	—	—	569,892
Due from other governments	2,769,315	—	1,970,044	476	4,739,835
Interfund loan receivable.....	3,800,889	—	—	—	3,800,889
Inventories.....	266,418	—	—	—	266,418
Prepaid items	196,667	—	10,000	—	206,667
Note receivable	—	—	215,000	—	215,000
Total Assets	<u>\$ 58,230,112</u>	<u>\$ 14,059,941</u>	<u>\$ 5,392,176</u>	<u>\$ 4,656,163</u>	<u>\$ 82,338,392</u>
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities					
Accounts payable.....	\$ 683,266	\$ —	\$ 696,374	\$ 13,436	\$ 1,393,076
Salaries and benefits payable.....	12,434,833	—	—	862	12,435,695
Advances from grantors	771,606	—	—	—	771,606
Due to other governments	1,701,193	—	—	8,221	1,709,414
Interfund loan payable	—	—	3,800,889	—	3,800,889
Total Liabilities	<u>15,590,898</u>	<u>—</u>	<u>4,497,263</u>	<u>22,519</u>	<u>20,110,680</u>
Deferred Inflows of Resources					
Unavailable Revenue					
Succeeding year property tax	36,412,278	—	2,831,482	2,999,992	42,243,752
Other	—	—	483,600	—	483,600
Total Deferred Inflows of Resources	<u>36,412,278</u>	<u>—</u>	<u>3,315,082</u>	<u>2,999,992</u>	<u>42,727,352</u>
Fund Balances					
Nonspendable					
Note receivable	—	—	215,000	—	215,000
Inventories	266,418	—	—	—	266,418
Restricted for					
Categorical funding.....	1,316,639	—	—	—	1,316,639
Debt service	—	14,059,941	—	—	14,059,941
Management levy purposes.....	—	—	—	448,597	448,597
Student activities.....	—	—	—	1,185,055	1,185,055
Physical plant and equipment.....	—	—	266,201	—	266,201
Assigned for					
Potential alternate health insurance plan	3,363,588	—	—	—	3,363,588
Unassigned	1,280,291	—	(2,901,370)	—	(1,621,079)
Total Fund Balances	<u>6,226,936</u>	<u>14,059,941</u>	<u>(2,420,169)</u>	<u>1,633,652</u>	<u>19,500,360</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 58,230,112</u>	<u>\$ 14,059,941</u>	<u>\$ 5,392,176</u>	<u>\$ 4,656,163</u>	<u>\$ 82,338,392</u>

See accompanying notes to the financial statements.

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

As of June 30, 2014

Total Fund Balances for Governmental Funds (Page 16)....		\$ 19,500,360
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.....		179,328,330
Other long-term assets are not available to pay current year expenditures and, therefore, are recognized as deferred inflows of resources in the governmental funds.....		483,600
Accrued interest payable on long-term liabilities is not due and payable in the current year and, therefore, is not reported as a liability in the governmental funds.....		(1,760,708)
Long-term liabilities, including revenue bonds, early retirement, compensated absences and other post-employment benefits, are not due and payable in the current year and, therefore, are not reported as liabilities in the governmental funds.		
Revenue bonds, net of unamortized premium	\$ (76,524,022)	
Early retirement.....	(420,000)	
Compensated absences.....	(513,722)	
Net OPEB liability	<u>(3,206,000)</u>	<u>(80,663,744)</u>
 Net Position of Governmental Activities (Page 14)		 <u>\$ 116,887,838</u>

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

Year Ended June 30, 2014

	General	Debt Service	Capital Projects	Nonmajor	Total
Revenue					
Local Sources					
Local tax.....	\$ 36,433,922	\$ —	\$ 2,869,878	\$ 3,172,335	\$ 42,476,135
Tuition	596,282	—	—	—	596,282
Other	2,945,613	76,795	32,910	1,725,343	4,780,661
State sources	73,084,253	—	9,397,669	2,020	82,483,942
Federal sources	9,351,830	—	820,811	—	10,172,641
Total Revenue.....	<u>122,411,900</u>	<u>76,795</u>	<u>13,121,268</u>	<u>4,899,698</u>	<u>140,509,661</u>
Expenditures					
Current					
Instruction					
Regular	55,209,551	—	220,092	1,463,974	56,893,617
Special	23,388,641	—	—	122,150	23,510,791
Vocational	180,893	—	—	—	180,893
Other	814,568	—	—	1,735,568	2,550,136
Total Instruction.....	<u>79,593,653</u>	<u>—</u>	<u>220,092</u>	<u>3,321,692</u>	<u>83,135,437</u>
Support Services					
Student	3,903,929	—	—	10,511	3,914,440
Instructional staff	3,962,993	—	—	115,836	4,078,829
General administration	1,973,032	—	891	72,230	2,046,153
School administration	7,120,879	—	—	85,765	7,206,644
Business and central administration	3,976,042	—	174,854	27,605	4,178,501
Operation and maintenance of plant.....	9,921,765	—	41,499	956,856	10,920,120
Transportation	4,790,354	—	300,000	2,597	5,092,951
Total Support Services.....	<u>35,648,994</u>	<u>—</u>	<u>517,244</u>	<u>1,271,400</u>	<u>37,437,638</u>
Noninstructional Programs	—	—	—	7,039	7,039
AEA Flowthrough	4,896,694	—	—	—	4,896,694
Facilities Acquisition	—	—	8,016,091	—	8,016,091
Debt Service					
Principal	—	1,700,000	—	—	1,700,000
Interest and fiscal charges	—	3,498,428	—	—	3,498,428
Total Debt Service	<u>—</u>	<u>5,198,428</u>	<u>—</u>	<u>—</u>	<u>5,198,428</u>
Total Expenditures.....	<u>120,139,341</u>	<u>5,198,428</u>	<u>8,753,427</u>	<u>4,600,131</u>	<u>138,691,327</u>
Revenue Over (Under) Expenditures	<u>2,272,559</u>	<u>(5,121,633)</u>	<u>4,367,841</u>	<u>299,567</u>	<u>1,818,334</u>
Other Financing Sources (Uses)					
Transfers in	38,175	7,309,628	—	43,984	7,391,787
Transfers out	(43,984)	—	(7,347,803)	—	(7,391,787)
Total Other Financing Sources (Uses).....	<u>(5,809)</u>	<u>7,309,628</u>	<u>(7,347,803)</u>	<u>43,984</u>	<u>—</u>
Net Change in Fund Balances	<u>2,266,750</u>	<u>2,187,995</u>	<u>(2,979,962)</u>	<u>343,551</u>	<u>1,818,334</u>
Fund Balances - Beginning of Year, as Restated (Note 15).....	3,960,186	11,871,946	559,793	1,290,101	17,682,026
Fund Balances - End of Year	<u>\$ 6,226,936</u>	<u>\$ 14,059,941</u>	<u>\$ (2,420,169)</u>	<u>\$ 1,633,652</u>	<u>\$ 19,500,360</u>

See accompanying notes to the financial statements.

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

Year Ended June 30, 2014

Change in Fund Balances - Total Governmental Funds (Page 18) \$ 1,818,334

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

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, those costs are not reported in the statement of activities and are allocated over their estimated useful lives as depreciation expense in the statement of activities. The amount of capital outlay expenditures and depreciation expense for the year is as follows:

Expenditures for capital outlay	\$ 6,354,643	
Depreciation expense.....	<u>(5,102,377)</u>	1,252,266

Certain local option sales tax not collected for several months after year end is not considered available revenue and is recognized as deferred inflows of resources in the governmental funds..... 18,600

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 1,700,000

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the governmental funds when due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. (32,288)

Amortization of premiums on bonds payable does not change current financial resources to governmental funds but it decreases liabilities in the statement of net position. ... 40,174

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

Early retirement.....	\$ 835,000	
Compensated absences.....	6,981	
Net OPEB liability.....	<u>(608,000)</u>	<u>233,981</u>

Change in Net Position of Governmental Activities (Page 15) \$ 5,031,067

Statement of Net Position - Proprietary Fund

As of June 30, 2014

	<u>Nonmajor Enterprise School Nutrition</u>
Assets	
Current Assets	
Cash, cash equivalents and investments.....	\$ 135,145
Due from other governments	87,708
Inventories.....	<u>54,865</u>
Total Current Assets	<u>277,718</u>
Capital assets, net of accumulated depreciation	<u>1,078,456</u>
Total Assets	<u>\$ 1,356,174</u>
Liabilities and Net Position	
Current Liabilities	
Accounts payable	\$ 59,085
Salaries and benefits payable.....	63,075
Unearned revenue.....	<u>38,322</u>
Total Current Liabilities	<u>160,482</u>
Net Position	
Investment in capital assets.....	1,078,456
Restricted - farm to school grant.....	31
Unrestricted	<u>117,205</u>
Total Net Position	<u>1,195,692</u>
Total Liabilities and Net Position	<u>\$ 1,356,174</u>

Statement of Revenue, Expenses and Changes in Net Position - Proprietary Fund

Year Ended June 30, 2014

	<u>Nonmajor Enterprise School Nutrition</u>
Operating Revenue	
Local Sources	
Charges for service	\$ 1,364,075
Other receipts	<u>12,900</u>
Total Operating Revenue	<u>1,376,975</u>
Operating Expenses	
Noninstructional Programs	
Food Service Operations	
Salaries	1,774,804
Benefits	773,711
Purchased services	81,583
Supplies	3,152,306
Other	13,395
Depreciation	<u>205,325</u>
Total Operating Expenses	<u>6,001,124</u>
Loss From Operations	<u>(4,624,149)</u>
Nonoperating Revenue	
State sources	48,342
Federal sources	4,459,848
Interest on investments	<u>359</u>
Total Nonoperating Revenue	<u>4,508,549</u>
Loss Before Capital Contributions and Loss on Disposal of Capital Assets ..	<u>(115,600)</u>
Capital Contributions and Loss on Disposal of Capital Assets	
Capital contributions	236,365
Loss on disposal of capital assets	<u>(2,234)</u>
Total Capital Contributions and Loss on Disposal of Capital Assets ..	<u>234,131</u>
Change in Net Position	118,531
Net Position - Beginning of Year	<u>1,077,161</u>
Net Position - End of Year	<u>\$ 1,195,692</u>

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Fund

Year Ended June 30, 2014

	<u>Nonmajor Enterprise School Nutrition</u>
Cash Flows From Operating Activities	
Cash received from sale of lunches and breakfasts.....	\$ 1,361,879
Cash received from other	12,900
Cash paid to employees for services	(2,514,840)
Cash paid to suppliers for goods or services	<u>(2,934,128)</u>
Net Cash Used in Operating Activities	<u>(4,074,189)</u>
Cash Flows From Noncapital Financing Activities	
State grants received.....	48,342
Federal grants received.....	4,563,864
Proceeds from interfund loans	3,961,009
Repayment of interfund loans and payables.....	<u>(4,358,902)</u>
Net Cash Provided by Noncapital Financing Activities.....	<u>4,214,313</u>
Cash Flows From Capital and Related Financing Activities	
Acquisition of capital assets.....	<u>(7,127)</u>
Cash Flows From Investing Activities	
Interest on investments	<u>359</u>
Net Increase in Cash, Cash Equivalents and Investments	133,356
Cash, Cash Equivalents and Investments - Beginning of Year	<u>1,789</u>
Cash, Cash Equivalents and Investments - End of Year	<u>\$ 135,145</u>
Reconciliation of Loss From Operations to Net Cash Used in Operating Activities	
Loss from operations.....	\$ (4,624,149)
Adjustments to Reconcile Loss From Operations to Net Cash Used in Operating Activities	
Commodities used	265,478
Depreciation	205,325
Capital contributions of noncapitalized assets.....	20,178
Changes in Assets and Liabilities	
Increase in inventories	(1,462)
Increase in accounts payable	28,962
Increase in salaries and benefits payable.....	33,675
Decrease in unearned revenue	<u>(2,196)</u>
Net Cash Used in Operating Activities.....	<u>\$ (4,074,189)</u>

Noncash Investing, Capital and Related Financing Activities

During the year ended June 30, 2014, the District received \$267,782 of federal commodities.

The District received \$216,187 of equipment contributed from the Capital Projects Fund and purchased additional equipment, resulting in total cash paid of \$7,127 for the year ended June 30, 2014.

Statement of Fiduciary Assets and Liabilities - Agency Fund ---

As of June 30, 2014

Assets

Cash.....	\$ 38,660
Accounts receivable	<u>15,728</u>

Total Assets	<u>\$ 54,388</u>
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Liabilities

Due to Other Governments.....	<u>\$ 54,388</u>
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Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

The District's financial statements are prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Governmental Accounting Standards Board.

Reporting Entity

For financial reporting purposes, Waterloo Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Black Hawk County Assessor's Conference Board.

Basis of Presentation

Government-Wide Financial Statements

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

The statement of net position presents the District's nonfiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenue are reported instead as general revenue.

Fund Financial Statements

Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds. Combining schedules are also included for the Capital Projects Fund accounts.

The District reports the following major governmental funds:

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

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

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

The District reports the following nonmajor proprietary fund:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

The District's fiduciary fund includes the following:

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

Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied. The agency fund is custodial in nature and has no measurement focus; however, it uses the accrual basis of accounting.

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

Property tax, intergovernmental revenue (shared revenue, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenue. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenue.

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

The District maintains its financial records on the cash basis. The financial statements of the District are prepared making memorandum adjusting entries to the cash basis financial records.

Assets, Liabilities, Deferred Inflows of Resources and Fund Equity

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

Cash, Cash Equivalents and Investments

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

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

Property Tax Receivable

Property tax in the governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1-1/2% per month penalty for delinquent payments; is based on January 1, 2012 assessed property valuations; is for the tax accrual period July 1, 2013 through June 30, 2014; and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2013.

Due From Other Governments

Due from other governments represents primarily amounts due from the State of Iowa, also included are amounts due for various shared revenue, grants and reimbursements from other governments.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Inventories

Inventories are valued at cost using the first-in, first-out (FIFO) method for purchased items and contributed value for government commodities. Inventories are recorded as expenses when consumed rather than when purchased or received in the government-wide financial statements and proprietary fund financial statements. In the governmental fund financial statements, inventories are accounted for using the consumption method whereby inventory acquisitions are recorded in inventory accounts when purchased and are charged to operations when consumed or sold.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements on the consumption method.

Note Receivable

During the year ended June 30, 2013, the District sold land and a building for \$330,000 under a noninterest-bearing note to a local nonprofit agency. Monthly payments of \$4,666 are to be received on the note through May, 2018. As of June 30, 2014, \$215,000 was receivable on the note.

Capital Assets

Capital assets, which include property and furniture and equipment are reported in the applicable governmental or business-type activities columns in the government-wide statement of net position. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset useful lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land.....	\$ 5,000
Buildings and improvements	5,000
Improvements other than buildings	5,000
Furniture and Equipment	
School Nutrition Fund equipment	500
Other furniture and equipment.....	5,000

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

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

Salaries and Benefits Payable

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

Advances from Grantors

Grant proceeds which have been received by the District but will be spent in the succeeding fiscal year.

(1) Summary of Significant Accounting Policies

Compensated Absences

District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect as of June 30, 2014. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net position.

Deferred Inflows of Resources

Although certain revenue is measurable, it is not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consists of property tax receivable and other receivables not collected within 60 days after year end.

Deferred inflows of resources in the statement of net position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Fund Balances

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

Nonspendable - Amounts that cannot be spent because they are in 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. Enabling legislation did not result in any restricted fund balance.

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

Unassigned - All amounts not included in the preceding classifications. The General Fund is the only fund that would report a positive amount in unassigned fund balance. A negative unassigned fund balance may be reported in other governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as required supplementary information. During the year ended June 30, 2014, expenditures did not exceed the amounts budgeted and the District did not exceed its General Fund unspent authorized budget.

(1) Summary of Significant Accounting Policies

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(2) Cash, Cash Equivalents and Investments

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

As of June 30, 2014, the District had investments in the Iowa Schools Joint Investment Trust Diversified Portfolio which are valued at amortized cost of \$5,043 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The value of the investment is the same as the value of the pool shares. The Iowa Schools Joint Investment Trust is registered with and regulated by the Securities and Exchange Commission.

Interest Rate Risk

The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District. The District did not own any investments as of June 30, 2014 other than deposits held in the Iowa Schools Joint Investment Trust.

Credit Risk

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

Concentration of Credit Risk

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

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

Notes to the Financial Statements

(2) Cash, Cash Equivalents and Investments

Custodial Credit Risk

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

The District's deposits in banks as of June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

(3) Interfund Loans

During the year ended June 30, 2014, the General Fund made several loans to the Capital Projects Fund and School Nutrition Fund for operating expenditures as needed. The loans bear interest at 1% and are required to be repaid to the General Fund as funding is available or in full by October 1, 2014. The detail of interfund loan receivables and payables as of June 30, 2014 is as follows:

Receivable Fund	Payable Fund	Amount
General	Capital Projects	<u>\$ 3,800,889</u>

(4) Interfund Transfers

The detail of the interfund transfers for the year ended June 30, 2014 is as follows:

Transfer to	Transfer From	Amount
Debt Service	Capital Projects	\$ 7,309,628
General	Capital Projects	38,175
Special Revenue		
Student Activity	General	43,984
		<u>\$ 7,391,787</u>

Transfers are used to (1) move revenue from the fund that statute or budget requires to collect the resources to the fund that statute or budget requires to expend the resources or (2) use unrestricted revenue collected in a certain fund to finance various programs accounted for in other funds in accordance with budgetary authorization.

Notes to the Financial Statements

(5) Capital Assets

Capital assets activity for the year ended June 30, 2014 was as follows:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Governmental Activities				
Capital Assets Not Being Depreciated				
Land.....	\$ 3,293,867	\$ —	\$ —	\$ 3,293,867
Construction in progress	32,642,947	8,702,160	37,317,832	4,027,275
Total Capital Assets Not Being Depreciated.....	<u>35,936,814</u>	<u>8,702,160</u>	<u>37,317,832</u>	<u>7,321,142</u>
Capital Assets Being Depreciated				
Buildings and improvements ..	175,037,132	34,540,841	—	209,577,973
Improvements other than buildings.....	9,382,775	99,807	—	9,482,582
Furniture and equipment	13,294,457	329,667	—	13,624,124
Total Capital Assets Being Depreciated.....	<u>197,714,364</u>	<u>34,970,315</u>	<u>—</u>	<u>232,684,679</u>
Less Accumulated Depreciation for				
Buildings and improvements ..	44,702,425	3,975,675	—	48,678,100
Improvements other than buildings.....	2,535,170	416,553	—	2,951,723
Furniture and equipment	8,337,519	710,149	—	9,047,668
Total Accumulated Depreciation.....	<u>55,575,114</u>	<u>5,102,377</u>	<u>—</u>	<u>60,677,491</u>
Total Capital Assets Being Depreciated, Net	<u>142,139,250</u>	<u>29,867,938</u>	<u>—</u>	<u>172,007,188</u>
Governmental Activities				
Capital Assets, Net.....	<u>\$ 178,076,064</u>	<u>\$ 38,570,098</u>	<u>\$ 37,317,832</u>	<u>\$ 179,328,330</u>
Business-Type Activities				
Furniture, equipment, vehicles....	\$ 3,625,118	\$ 223,314	\$ 207,219	\$ 3,641,213
Less accumulated depreciation ..	2,562,417	205,325	204,985	2,562,757
Business-Type Activities				
Capital Assets, Net.....	<u>\$ 1,062,701</u>	<u>\$ 17,989</u>	<u>\$ 2,234</u>	<u>\$ 1,078,456</u>

Notes to the Financial Statements

(5) Capital Assets

The changes in capital assets used in the operation of governmental funds by function and activity as of June 30, 2014 are as follows:

Function and Activity	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Education	\$ 227,286,430	\$ 43,543,712	\$ 37,317,832	\$ 233,512,310
Transportation	190,750	50,000	—	240,750
Maintenance	3,509,619	48,968	—	3,558,587
Administration	2,664,379	29,795	—	2,694,174
	<u>\$ 233,651,178</u>	<u>\$ 43,672,475</u>	<u>\$ 37,317,832</u>	<u>\$ 240,005,821</u>

The capital assets used in the operation of governmental funds by function and activity as of June 30, 2014 are as follows:

Function and Activity	Construction in Progress	Land and Improvements Other Than Buildings	Buildings and Improvements	Furniture and Equipment	Total
Education	\$ 4,027,275	\$ 12,252,632	\$ 208,656,888	\$ 8,575,515	\$ 233,512,310
Transportation	—	7,000	52,000	181,750	240,750
Maintenance	—	458,638	516,364	2,583,585	3,558,587
Administration	—	58,179	352,721	2,283,274	2,694,174
	<u>\$ 4,027,275</u>	<u>\$ 12,776,449</u>	<u>\$ 209,577,973</u>	<u>\$ 13,624,124</u>	<u>\$ 240,005,821</u>

Depreciation expense was charged to the following functions:

Governmental Activities

Instruction		
Regular		\$ 54,759
Special		1,793
Vocational		23,538
Other		67,926
Support Services		
Student		295
Instructional staff		632
General administration		1,304
School administration		623
Business and central administration		127,092
Operation and maintenance of plant		263,239
Transportation		23,317
Unallocated depreciation		4,537,859
Total Depreciation Expense - Governmental Activities		<u>\$ 5,102,377</u>

Business-Type Activities

Food Service Operations		<u>\$ 205,325</u>
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Notes to the Financial Statements

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2014 is as follows:

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year	Due Within One Year
Governmental Activities					
Revenue bonds	\$ 77,809,539	\$ —	\$ 1,700,000	\$ 76,109,539	\$ 2,655,000
Unamortized bond premium.....	454,657	—	40,174	414,483	39,734
Early retirement	1,255,000	—	835,000	420,000	420,000
Compensated absences	520,703	—	6,981	513,722	385,291
Net OPEB liability ...	2,598,000	608,000	—	3,206,000	—
Total	\$ 82,637,899	\$ 608,000	\$ 2,582,155	\$ 80,663,744	\$ 3,500,025

Revenue Bonds

Details of the District's June 30, 2014 statewide sales, services and use tax revenue (and refunding) bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue April 26, 2011 - Series A			Bond Issue April 26, 2011 - Series B				
	Interest Rate	Principal	Interest	Interest Rate	Principal	Interest	Credit	Interest Net of Credit
2015	4.00%	\$ 1,700,000	\$ 2,326,550	5.85%	\$ —	\$ 958,203	\$ (884,495)	\$ 73,708
2016	4.00	1,800,000	2,256,550	5.85	—	958,203	(884,495)	73,708
2017	4.00	1,900,000	2,182,550	5.85	—	958,203	(884,495)	73,708
2018	4.00	1,900,000	2,106,550	5.85	—	958,203	(884,495)	73,708
2019	4.00	2,000,000	2,028,550	5.85	—	958,203	(884,495)	73,708
2020-2024 .	4.00 - 5.00	10,900,000	8,783,250	5.85	—	4,791,015	(4,422,475)	368,540
2025-2029 .	5.00	20,350,000	5,254,000	5.85	16,379,539	1,437,305	(1,326,743)	110,562
2030	5.00 - 5.25	9,180,000	329,050	—	—	—	—	—
Total.....		\$ 49,730,000	\$ 25,267,050		\$ 16,379,539	\$ 11,019,335	\$ (10,171,693)	\$ 847,642

Year Ending June 30,	Bond Issue April 22, 2013			Total		
	Interest Rate	Principal	Interest	Principal	Interest Net of Credit	Total
2015	2.00%	\$ 955,000	\$ 193,112	\$ 2,655,000	\$ 2,593,370	\$ 5,248,370
2016	2.00	960,000	173,963	2,760,000	2,504,221	5,264,221
2017	2.00	970,000	154,662	2,870,000	2,410,920	5,280,920
2018	2.00	975,000	135,213	2,875,000	2,315,471	5,190,471
2019	2.00	990,000	115,562	2,990,000	2,217,820	5,207,820
2020-2024 .	2.00 - 2.25	5,150,000	272,782	16,050,000	9,424,572	25,474,572
2025-2029 .	—	—	—	36,729,539	5,364,562	42,094,101
2030	—	—	—	9,180,000	329,050	9,509,050
Total.....		\$ 10,000,000	\$ 1,045,294	\$ 76,109,539	\$ 27,159,986	\$ 103,269,525

Notes to the Financial Statements

(6) Long-Term Liabilities

The District has pledged future statewide sales, services and use tax revenue to repay the \$62,780,000 of bonds issued in April, 2011 (Series A) and April, 2013. The bonds were issued for the purpose of financing a portion of the costs associated with site acquisition, construction, reconstruction, remodeling and refurbishing certain District facilities, refunding the District's outstanding statewide sales, services and use tax revenue bonds, Series 2009 (2011 issue only) and paying the costs of issuing the bonds. The bonds are payable solely from proceeds of the statewide sales, services and use tax revenue received by the District. The 2011 and 2013 issues mature January 1, 2030 and July 1, 2023, respectively. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. The total principal and interest remaining to be paid on the bonds is \$86,042,344. For the current year, principal of \$1,700,000 and interest of \$2,534,725 was paid on the bonds.

The District has also pledged future statewide sales, services and use tax revenue to repay the \$16,379,539 of qualified school construction bonds Series B (direct pay) issued in April, 2011. The bonds were issued for the purpose of financing a portion of the costs associated with site acquisition and construction of a new elementary school. The bonds are payable solely from proceeds of the statewide sales, services and use tax revenue received by the District and mature July 1, 2025. The bonds have an interest rate of 5.85% but the District is entitled to a credit from the federal government at a rate of 5.4% (Build America Bonds). The District must remit interest net of any credits received to the bondholder semi-annually. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. The total principal and interest net of credits remaining to be paid on the bonds is \$17,227,181. For the current year, no principal and interest net of credit of \$137,392 was paid on the bonds.

Annual principal and interest payments on all outstanding bonds are expected to require nearly 58% of the statewide sales, services and use tax revenue. For the current year, total statewide sales, services and use tax revenue was \$9,395,943.

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

- a. A portion of the proceeds from the issuance of the bonds be used to pay off any remaining principal and interest due on the 2009 series bonds (2011 Series A only).
- b. 10% of the proceeds from the issuance of the revenue bonds (2011 Series A and Series 2013 only) shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- c. All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
- d. Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- e. Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

The District complied with all of the revenue bond provisions during the year ended June 30, 2014.

Notes to the Financial Statements

(6) Long-Term Liabilities

The District did not exceed its legal debt margin as of June 30, 2014, as follows:

Total Assessed Valuation	<u>\$ 4,183,159,818</u>
Debt limit, 5% of total assessed valuation.....	\$ 209,157,991
Amount of debt applicable to debt limit, total bonded debt.....	<u>76,109,539</u>
Excess of Debt Limit Over Bonded Debt Outstanding, Legal Debt Margin	<u>\$ 133,048,452</u>

Lines of Credit

During the fiscal year ended June 30, 2014, the Board approved using a short-term line of credit maturing on November 11, 2013 with a local bank for a maximum of \$9,850,000. The line of credit bore 2.75% interest per annum. Funds were drawn to pay operating expenses and were repaid when funds were received from operations or other funding. During the fiscal year ended June 30, 2014, the outstanding balance did not exceed the \$9,850,000 maximum. In the fiscal year ended June 30, 2014, \$12,876,000 was drawn and repaid on the line of credit. No balance was outstanding as of June 30, 2014. Current year interest paid was \$22,918.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 5.95% (2014), 5.78% (2013) and 5.38% (2012) of their annual covered salary and the District is required to contribute 8.93% (2014), 8.67% (2013) and 8.07% (2012) of annual covered salary for the years ended June 30, 2014, 2013 and 2012. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$6,410,808, \$6,146,168 and \$5,538,069, respectively, equal to the required contributions for each year.

(8) Contingent Liability for Sick Leave Time

District employees accumulate sick leave hours for subsequent use. These accumulations do not vest and therefore are not recognized as liabilities of the District until used by employees. The District's contingent liability for employee sick leave as of June 30, 2014 was approximately \$13,000,000.

Notes to the Financial Statements

(9) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage from the prior year.

(10) Area Education Agency Support

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$4,894,694 for the year ended June 30, 2014, and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(11) Early Retirement Plan

The District offers a voluntary early retirement plan to its teachers, administrative support staff and administrators. The application for early retirement is subject to approval by the Board of Education.

The District provides a one-time supplemental benefit payment for administrative support staff and administrators. The District offers the plan on an annual basis. To be eligible for the benefit, the administrative support staff or administrator must have attained age 55 by August 1, have completed 13 years of service with the District and have submitted application for retirement by March 31. In addition, for administrators to qualify, at least ten of the years of service must have been as an administrator. Benefits are computed as 30%-40% of salary based on age at retirement. The administrative support staff and administrators are also eligible to continue participation in the District's group health insurance program to age 65, as described in Note 12.

As of June 30, 2014, two administrative support staff and administrators requested early retirement under the fiscal year 2014 incentive. The District had no remaining obligation for this incentive as the one-time payments were made during the year.

The District adopted temporary supplemental early retirement incentives for teachers who applied for early retirement in fiscal year 2010 no later than January 30, 2010 or in fiscal year 2013 no later than March 15, 2013. Eligible teachers must have completed at least 13 years of full-time service to the District and must have reached the age of 55 on or before September 1 (fiscal year 2010 incentive) or June 30 (fiscal year 2013 incentive) in the calendar year in which early retirement commences. The benefit amount was \$25,000 per teacher paid over five years for the incentive approved in fiscal year 2010, final payment is due in July, 2014. The benefit amount was \$30,000 per teacher for the incentive approved in fiscal year 2013, final payment is due in July, 2015.

As of June 30, 2014, 125 teachers had requested early retirement under the fiscal year 2010 and 2013 incentives. The District's remaining obligation was \$420,000.

Early retirement expenditures for the year ended June 30, 2014 totaled \$1,031,382.

The early retirement plan liability is liquidated by the Management Fund, a nonmajor governmental fund.

Notes to the Financial Statements

(12) Other Postemployment Benefits (OPEB)

Plan Description

The District operates a single-employer health benefit plan which provides medical/prescription drug and dental benefits for employees, retirees and their spouses. There are 1,624 active and 20 retired members in the plan. Retired participants must be age 55 or older at retirement. The plan does not issue a stand-alone financial report.

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2014, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 947,000
Interest on net OPEB obligation.....	117,000
Adjustment to annual required contribution.....	<u>(99,000)</u>
Annual OPEB Cost	965,000
Contributions made	<u>(357,000)</u>
Increase in Net OPEB Obligation	608,000
Net OPEB Obligation - Beginning of Year.....	<u>2,598,000</u>
Net OPEB Obligation - End of Year	<u>\$ 3,206,000</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2014.

For the year ended June 30, 2014, the District contributed \$357,000 to the medical plan. Plan members eligible for benefits contributed \$28,113, or 7.3%, of the premium costs.

Notes to the Financial Statements

(12) Other Postemployment Benefits (OPEB)

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

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	\$ 911,000	38.1%	\$ 1,871,000
June 30, 2013	959,000	24.2	2,598,000
June 30, 2014	965,000	37.0	3,206,000

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date for the period of July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$7.112 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$7.112 million. The covered payroll (annual payroll of active employees covered by the plan) was \$65.851 million and the ratio of the UAAL to covered payroll was 10.8%. As of June 30, 2014, there were no trust fund assets.

Actuarial Methods and Assumptions

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

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

As of the July 1, 2012 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 9.0%. The ultimate medical trend rate is 5.0%. The medical trend rate is reduced by 0.5% each year until reaching the 5.0% ultimate trend rate. An inflation rate of 0.0% is assumed for the purpose of this computation.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2013 and applying the termination factors used in IPERS Actuarial Report as of June 30, 2013.

Notes to the Financial Statements

(12) Other Postemployment Benefits (OPEB)

Projected claim costs of the medical plan are \$731 per month for retirees age 60. The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(13) Categorical Funding

The District's restricted fund balance for categorical funding as of June 30, 2014 is comprised of the following programs:

Beginning teacher mentoring and induction	\$ 23,254
Educator quality, professional development	91,927
Gifted and talented program	141,458
Home school assistance program.....	4,299
Professional development for model core curriculum.....	148,746
Returning dropout and dropout prevention program	336,789
Statewide voluntary 4-year-old preschool program	253,831
Successful progression for early readers program.....	95,713
Teacher salary supplement	181,520
Textbook aid for nonpublic students	<u>39,102</u>
Total	<u>\$ 1,316,639</u>

(14) Commitments

The District has entered into agreements with various companies for nursing, management of the District's food service operations and operation of the District's student transportation services. Terms of the agreements range from one to five years, and all agreements contain provisions for renewal.

The District has entered into various contracts for several projects which are primarily being funded by the statewide sales, services and use tax. The projects include asbestos removal and demolition of Irving Elementary School, roofing projects at several locations, an addition and renovation of Hoover Middle School, the purchase of property for a future bus garage and other various projects. As of June 30, 2014, the remaining commitment on these contracts was approximately \$2,700,000.

Notes to the Financial Statements

(15) Prior Period Restatement

The District restated beginning fund balance to account for a \$128,841 worker's compensation insurance audit adjustment paid in October, 2013 related to the fiscal year ended June 30, 2013.

The effect of the restatement on the District's beginning fund balance/net position were as follows:

	Governmental Activities	<u>Special Revenue Management Levy</u>
Governmental Activities		
Fund Balance/Net Position - Beginning of Year as previously reported.....	\$ 11,985,612	\$ 246,066
Record fiscal year 2013 worker's compensation insurance audit adjustment	<u>(128,841)</u>	<u>(128,841)</u>
Fund Balance/Net Position - Beginning of Year as Restated.....	<u>\$ 11,856,771</u>	<u>\$ 117,225</u>

(16) Subsequent Events

Management has evaluated subsequent events through October 31, 2014, the date which the financial statements were available to be issued.

Subsequent to June 30, 2014, the District entered into a contract for the renovation of a bus garage for approximately \$1.5 million and into an agreement with the City of Waterloo and the Metropolitan Transit Authority for the exchange of land to be used for a bus garage.

Subsequent to June 30, 2014, the District engaged in short-term borrowing to meet cash flow needs.

Subsequent to June 30, 2014, the District approved interfund loans from the General Fund to the Capital Projects Fund of up to \$8 million and the School Nutrition Fund of up to \$1.2 million to meet cash flow needs. The loans bear interest at 1% and are to be repaid in full by October 1, 2015.

(17) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27*. This statement will be implemented during the year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the statement of net position may include a significant liability for the District's proportionate share of the IPERS employee pension plan unfunded pension liability.

Required Supplementary Information

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

Year Ended June 30, 2014

	Actual		Total	Original and Final Budget	Over (Under) Budget
	Governmental Fund Types	Proprietary Fund Type			
Revenue					
Local sources	\$ 47,853,078	\$ 1,377,334	\$ 49,230,412	\$ 60,966,123	\$ (11,735,711)
Intermediate sources.....	—	—	—	475,000	(475,000)
State sources	82,483,942	48,342	82,532,284	74,245,820	8,286,464
Federal sources	<u>10,172,641</u>	<u>4,459,848</u>	<u>14,632,489</u>	<u>13,500,000</u>	<u>1,132,489</u>
Total Revenue	<u>140,509,661</u>	<u>5,885,524</u>	<u>146,395,185</u>	<u>149,186,943</u>	<u>(2,791,758)</u>
Expenditures/Expenses					
Instruction.....	83,135,437	—	83,135,437	88,250,000	(5,114,563)
Support services	37,437,638	—	37,437,638	40,475,000	(3,037,362)
Noninstructional programs ..	7,039	6,001,124	6,008,163	6,700,000	(691,837)
Other expenditures.....	<u>18,111,213</u>	<u>—</u>	<u>18,111,213</u>	<u>19,627,212</u>	<u>(1,515,999)</u>
Total Expenditures/ Expenses	<u>138,691,327</u>	<u>6,001,124</u>	<u>144,692,451</u>	<u>155,052,212</u>	<u>(10,359,761)</u>
Revenue Over (Under) Expenditures/Expenses	1,818,334	(115,600)	1,702,734	(5,865,269)	7,568,003
Other Financing Sources (Uses) (Net).....	<u>—</u>	<u>234,131</u>	<u>234,131</u>	<u>769,075</u>	<u>(534,944)</u>
Revenue and Other Financing Sources Over (Under) Expenditures/ Expenses and Other Financing Uses	1,818,334	118,531	1,936,865	(5,096,194)	<u>\$ 7,033,059</u>
Balance - Beginning of Year, as Restated (Note 15).....	<u>17,682,026</u>	<u>1,077,161</u>	<u>18,759,187</u>	<u>22,274,281</u>	
Balance - End of Year	<u>\$ 19,500,360</u>	<u>\$ 1,195,692</u>	<u>\$ 20,696,052</u>	<u>\$ 17,178,087</u>	

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, noninstructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District did not amend their original budget.

During the year ended June 30, 2014, expenditures/expenses did not exceed the amounts budgeted and the District did not exceed its General Fund unspent authorized budget.

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2009	7-1-08	\$ —	\$ 10,796,000	\$ 10,796,000	0%	\$ 50,106,000	21.5%
2010	7-1-08	—	10,796,000	10,796,000	0	50,106,000	21.5
2011	7-1-10	—	7,325,000	7,325,000	0	60,240,000	12.2
2012	7-1-10	—	7,325,000	7,325,000	0	60,240,000	12.2
2013	7-1-12	—	7,112,000	7,112,000	0	65,305,000	10.9
2014	7-1-12	—	7,112,000	7,112,000	0	65,851,000	10.8

See Note 12 in the accompanying notes to the financial statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Supplementary Information

Nonmajor Governmental Funds - Description of Funds ---

Special Revenue Funds

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

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

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

Combining Balance Sheet - Nonmajor Governmental Funds

As of June 30, 2014

	<u>Special Revenue</u>		Total
	Management Levy	Student Activity	
Assets			
Cash, cash equivalents and investments.....	\$ 422,340	\$ 1,199,353	\$ 1,621,693
Receivables, Net of Allowance for Uncollectible Amounts			
Property Tax			
Current year delinquent.....	34,002	—	34,002
Succeeding year.....	2,999,992	—	2,999,992
Due from other governments.....	<u>476</u>	<u>—</u>	<u>476</u>
Total Assets	<u>\$ 3,456,810</u>	<u>\$ 1,199,353</u>	<u>\$ 4,656,163</u>
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities			
Accounts payable.....	\$ —	\$ 13,436	\$ 13,436
Salaries and benefits payable.....	—	862	862
Due to other governments.....	<u>8,221</u>	<u>—</u>	<u>8,221</u>
Total Liabilities	<u>8,221</u>	<u>14,298</u>	<u>22,519</u>
Deferred Inflows of Resources			
Unavailable Revenue			
Succeeding year property tax.....	<u>2,999,992</u>	<u>—</u>	<u>2,999,992</u>
Fund Balances			
Restricted for			
Management levy purposes	448,597	—	448,597
Student activities.....	<u>—</u>	<u>1,185,055</u>	<u>1,185,055</u>
Total Fund Balances	<u>448,597</u>	<u>1,185,055</u>	<u>1,633,652</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 3,456,810</u>	<u>\$ 1,199,353</u>	<u>\$ 4,656,163</u>

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

Year Ended June 30, 2014

Revenue	Special Revenue		Total
	Management Levy	Student Activity	
Local Sources			
Local tax	\$ 3,172,335	\$ —	\$ 3,172,335
Other	16,036	1,709,307	1,725,343
State sources	2,020	—	2,020
Total Revenue	3,190,391	1,709,307	4,899,698
Expenditures			
Current			
Instruction			
Regular	1,463,974	—	1,463,974
Special	122,150	—	122,150
Other	—	1,735,568	1,735,568
Total Instruction	1,586,124	1,735,568	3,321,692
Support Services			
Student	10,511	—	10,511
Instructional staff	115,836	—	115,836
General administration	72,230	—	72,230
School administration	85,765	—	85,765
Business and central administration	24,658	2,947	27,605
Operation and maintenance of plant	956,856	—	956,856
Transportation	—	2,597	2,597
Total Support Services	1,265,856	5,544	1,271,400
Noninstructional Programs	7,039	—	7,039
Total Expenditures	2,859,019	1,741,112	4,600,131
Revenue Over (Under) Expenditures	331,372	(31,805)	299,567
Other Financing Sources			
Transfers in	—	43,984	43,984
Net Change in Fund Balances	331,372	12,179	343,551
Fund Balances - Beginning of Year, as Restated (Note 15)	117,225	1,172,876	1,290,101
Fund Balances - End of Year	\$ 448,597	\$ 1,185,055	\$ 1,633,652

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

Year Ended June 30, 2014

Account	Balance - Beginning of Year	Revenue and Transfers	Expenditures	Balance - End of Year
High Schools				
East	\$ 203,205	\$ 365,224	\$ 313,576	\$ 254,853
Expo	41,060	61,628	65,879	36,809
West	264,585	779,589	778,374	265,800
Middle Schools				
Bunger	63,872	31,109	31,176	63,805
Carver	30,300	18,433	13,042	35,691
Central	76,846	27,837	26,317	78,366
Hoover	65,545	52,428	71,159	46,814
Elementary Schools				
Cunningham	13,754	22,587	22,870	13,471
Elk Run Pre-K	1,305	4,453	533	5,225
Fred Becker	32,181	23,133	29,206	26,108
Highland	53,898	33,293	40,309	46,882
Irving	35,864	18,298	9,035	45,127
Kingsley	44,462	44,759	50,647	38,574
Kittrell	53,433	17,522	27,305	43,650
Lincoln	47,410	5,587	12,389	40,608
Lou Henry	47,770	50,617	59,798	38,589
Lowell	21,560	30,547	27,349	24,758
Orange	34,084	54,315	54,785	33,614
Poyner	34,542	63,447	63,270	34,719
Other	<u>7,200</u>	<u>48,485</u>	<u>44,093</u>	<u>11,592</u>
Total	<u>\$ 1,172,876</u>	<u>\$ 1,753,291</u>	<u>\$ 1,741,112</u>	<u>\$ 1,185,055</u>

Capital Projects Accounts - Description of Accounts

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

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

Combining Balance Sheet - Capital Projects Accounts

As of June 30, 2014

	<u>Capital Projects</u>		Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	
Assets			
Cash, cash equivalents and investments.....	\$ 3,092	\$ 329,664	\$ 332,756
Receivables, Net of Allowance for Uncollectible Amounts			
Property Tax			
Current year delinquent	—	32,894	32,894
Succeeding year	—	2,831,482	2,831,482
Due from other governments	1,969,644	400	1,970,044
Prepaid items	10,000	—	10,000
Note receivable	—	215,000	215,000
Total Assets	<u>\$ 1,982,736</u>	<u>\$ 3,409,440</u>	<u>\$ 5,392,176</u>
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities			
Accounts payable	\$ 599,617	\$ 96,757	\$ 696,374
Interfund loan payable	3,800,889	—	3,800,889
Total Liabilities	<u>4,400,506</u>	<u>96,757</u>	<u>4,497,263</u>
Deferred Inflows of Resources			
Unavailable Revenue			
Succeeding year property tax	—	2,831,482	2,831,482
Other	483,600	—	483,600
Total Deferred Inflows of Resources	<u>483,600</u>	<u>2,831,482</u>	<u>3,315,082</u>
Fund Balances			
Nonspendable			
Note receivable.....	—	215,000	215,000
Restricted for			
Physical plant and equipment.....	—	266,201	266,201
Unassigned	(2,901,370)	—	(2,901,370)
Total Fund Balances	<u>(2,901,370)</u>	<u>481,201</u>	<u>(2,420,169)</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 1,982,736</u>	<u>\$ 3,409,440</u>	<u>\$ 5,392,176</u>

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

Year Ended June 30, 2014

	Capital Projects		Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	
Revenue			
Local Sources			
Local tax.....	\$ —	\$ 2,869,878	\$ 2,869,878
Other	32,910	—	32,910
State sources	9,395,943	1,726	9,397,669
Federal sources.....	820,811	—	820,811
Total Revenue	<u>10,249,664</u>	<u>2,871,604</u>	<u>13,121,268</u>
Expenditures			
Current			
Instruction			
Regular.....	<u>11,397</u>	<u>208,695</u>	<u>220,092</u>
Support Services			
General administration.....	—	891	891
Business and central administration	51,508	123,346	174,854
Operation and maintenance of plant	—	41,499	41,499
Transportation	—	300,000	300,000
Total Support Services.....	<u>51,508</u>	<u>465,736</u>	<u>517,244</u>
Facilities Acquisition	<u>6,159,647</u>	<u>1,856,444</u>	<u>8,016,091</u>
Total Expenditures	<u>6,222,552</u>	<u>2,530,875</u>	<u>8,753,427</u>
Revenue Over Expenditures	<u>4,027,112</u>	<u>340,729</u>	<u>4,367,841</u>
Other Financing Uses			
Transfers out	<u>(7,347,803)</u>	<u>—</u>	<u>(7,347,803)</u>
Net Change in Fund Balances	(3,320,691)	340,729	(2,979,962)
Fund Balance - Beginning of Year	<u>419,321</u>	<u>140,472</u>	<u>559,793</u>
Fund Balance - End of Year	<u>\$ (2,901,370)</u>	<u>\$ 481,201</u>	<u>\$ (2,420,169)</u>

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

Year Ended June 30, 2014

	Balance - Beginning of Year	Additions	Deductions	Balance - End of Year
Assets				
Cash.....	\$ 47,074	\$ 38,660	\$ 47,074	\$ 38,660
Accounts receivable	<u>15,728</u>	<u>15,728</u>	<u>15,728</u>	<u>15,728</u>
Total Assets	<u>\$ 62,802</u>	<u>\$ 54,388</u>	<u>\$ 62,802</u>	<u>\$ 54,388</u>
 Liabilities				
Due to Other Governments.....	<u>\$ 62,802</u>	<u>\$ 54,388</u>	<u>\$ 62,802</u>	<u>\$ 54,388</u>

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

For the Last Ten Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenue										
Local Sources										
Local tax	\$ 42,476,135	\$ 50,599,641	\$ 48,794,236	\$ 47,907,941	\$ 49,786,925	\$ 48,754,219	\$ 46,212,046	\$ 43,826,641	\$ 42,087,405	\$ 40,599,831
Tuition	596,282	1,881,058	645,002	724,552	647,364	—	—	—	—	—
Other	4,780,661	4,412,490	4,390,491	3,609,854	3,826,358	3,997,924	5,363,665	5,803,902	4,545,891	3,374,140
Intermediate sources	—	—	—	—	—	—	10,330	2,215	2,725	131,022
State sources	82,483,942	67,889,502	65,694,781	64,173,910	54,520,646	61,072,325	60,639,195	55,888,686	52,891,722	49,774,462
Federal sources	10,172,641	11,417,237	13,512,793	12,553,120	15,949,372	8,158,825	5,910,793	6,968,832	7,133,501	7,724,946
Total	\$ 140,509,661	\$ 136,199,928	\$ 133,037,303	\$ 128,969,377	\$ 124,730,665	\$ 121,983,293	\$ 118,136,029	\$ 112,490,276	\$ 106,661,244	\$ 101,604,401
Expenditures										
Instruction										
Regular	\$ 56,893,617	\$ 58,001,828	\$ 57,358,965	\$ 54,334,602	\$ 53,410,072	\$ 49,745,136	\$ 47,238,480	\$ 39,294,245	\$ 36,854,924	\$ 36,885,149
Special	23,510,791	26,853,906	24,233,590	21,298,386	22,045,710	19,210,024	17,777,102	17,764,190	23,909,417	20,432,358
Vocational	180,893	201,367	181,479	161,738	197,814	185,276	225,193	1,238,916	1,441,783	1,225,442
Other	2,550,136	2,610,714	2,515,742	2,413,216	2,478,531	2,672,282	2,725,126	7,171,142	2,610,481	3,065,679
Support Services										
Student	3,914,440	4,189,344	3,943,132	2,853,555	2,559,696	3,133,821	2,487,719	2,828,831	2,995,164	2,950,960
Instructional staff	4,078,829	4,641,961	4,382,606	3,564,947	4,373,003	3,390,257	3,173,912	2,776,296	1,744,630	2,650,565
General administration	2,046,153	1,313,279	1,280,923	1,087,004	1,161,982	1,072,601	1,161,352	803,132	1,067,712	910,675
School administration	7,206,644	6,661,022	6,351,790	5,879,252	5,758,327	5,471,176	5,720,145	5,915,315	5,656,379	4,851,254
Business and central administration	4,178,501	4,028,887	3,897,856	4,683,782	3,909,258	5,325,264	2,766,553	2,663,198	3,308,954	2,801,451
Operation and maintenance of plant	10,920,120	10,708,839	9,941,089	9,638,972	9,850,642	9,919,474	9,286,639	9,769,436	8,244,959	9,447,732
Transportation services	5,092,951	5,353,119	4,280,604	3,881,025	3,191,138	2,182,716	2,994,845	3,333,897	3,234,530	2,742,655
Noninstructional programs	7,039	7,312	7,272	11,533	17,099	14,950	27,082	30,907	5,264	99,458
AEA flowthrough	4,896,694	4,648,080	4,689,160	5,132,642	4,966,096	4,221,658	4,047,085	3,790,584	3,558,701	3,388,142
Facilities acquisition	8,016,091	16,032,792	12,646,370	18,959,552	17,750,265	38,925,059	14,066,142	22,003,212	10,164,017	13,136,293
Debt Service										
Principal	1,700,000	1,350,000	—	—	—	35,000,000	—	—	—	—
Interest and fiscal charges	3,498,428	3,476,497	2,343,124	3,015,301	1,740,400	1,663,100	1,663,891	1,662,500	—	—
Total	\$ 138,691,327	\$ 150,078,947	\$ 138,053,702	\$ 136,915,507	\$ 133,410,033	\$ 182,132,794	\$ 115,361,266	\$ 121,045,801	\$ 104,796,915	\$ 104,587,813
Other Financing Sources (Uses)										
Revenue bonds issued	\$ —	\$ 10,000,000	\$ —	\$ 69,159,539	\$ —	\$ 46,400,000	\$ —	\$ —	\$ 35,000,000	\$ —
Premium (discount) on sale of revenue bonds	—	246,146	—	240,456	—	(174,000)	—	—	608,150	—
Revenue bonds repaid	—	—	—	(46,400,000)	—	—	—	—	—	—
Proceeds from sale of capital assets	—	50,003	—	—	—	1,150	7,506	15,073	—	7,919
Long-term note receivable from sale of capital assets	—	280,000	—	—	—	—	—	—	—	—
Transfers (net)	—	—	133,409	—	(60,000)	(60,000)	(115,000)	(142,717)	(216,902)	(257,971)
Total	\$ —	\$ 10,576,149	\$ 133,409	\$ 22,999,995	\$ (60,000)	\$ 46,167,150	\$ (107,494)	\$ (127,644)	\$ 35,391,248	\$ (250,052)

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number or Grant Number	Expenditures
U.S. Department of Agriculture - Indirect			
Pass-Through From Iowa Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553	FY 14	\$ 799,846
National School Lunch Program	10.555	FY 14	3,190,584
National School Lunch Program - Food Donation (noncash).....	10.555	FY 14	267,782
Summer Food Service Program for Children	10.559	FY 14	<u>95,949</u>
Total Child Nutrition Cluster.....			<u>4,354,161</u>
Fresh Fruit and Vegetable Program	10.582	FY 14	<u>105,687</u>
Total U.S. Department of Agriculture			<u>4,459,848</u>
U.S. Department of Education			
Direct			
Fund for the Improvement of Education	84.215	S215L080490	<u>82,820</u>
Indirect			
Pass-Through From Area Education Agency 267			
Special Education - Grants to States	84.027	FY 14	<u>621,484*</u>
Pass-Through From Iowa Department of Education			
Title I Grants to Local Educational Agencies.....	84.010	FY 13/14	<u>3,662,845</u>
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	FY 13/14	<u>18,166</u>
Special Education - Grants to States	84.027	FY 14	<u>2,297*</u>
Career and Technical Education - Basic Grants to States.....	84.048	FY 14	<u>166,183</u>
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	FY 14	<u>117,834</u>
Safe and Drug-Free Schools and Communities - National Programs	84.184	FY 13/14	<u>167,733</u>
Ready-to-Learn Television.....	84.295	FY 14	<u>1,000</u>
Advanced Placement Program - Advanced Placement Test Fee - Advanced Placement Incentive Program Grants	84.330	FY 14	<u>405</u>
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	FY 13	<u>23,975</u>
English Language Acquisition State Grants	84.365	FY 13/14	<u>122,259</u>
Improving Teacher Quality State Grants.....	84.367	FY 14	<u>643,778</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number or Grant Number	Expenditures
U.S. Department of Education			
Indirect			
Pass-Through From Iowa Department of Education			
Grants for State Assessments and Related Activities.....	84.369	FY 14	\$ <u>56,766</u>
School Improvement Grants Cluster			
School Improvement Grants.....	84.377	FY 11/12/14	1,109,657
ARRA - School Improvement Grants, Recovery Act	84.388	FY 11	<u>198,691</u>
Total School Improvement Grants Cluster			<u>1,308,348</u>
Total Pass-Through From Iowa Department of Education			<u>6,291,589</u>
Total U.S. Department of Education			<u>6,995,893</u>
U.S. Department of Health and Human Services - Indirect			
Pass-Through From Tri-County Child and Family Development Council, Inc.			
Head Start	93.600	FY 14	<u>700,200</u>
Total			<u>\$ 12,155,941</u>

* Total for CFDA Number 84.027 is \$623,781.

Basis of Presentation

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

Subrecipients

Waterloo Community School District provided no federal awards to subrecipients.

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Certified Public Accountants and Consultants

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

Board of Education
Waterloo Community School District
Waterloo, Iowa

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Waterloo Community School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents, and have issued our report thereon dated October 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Waterloo Community School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Waterloo Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Waterloo Community School District's internal control.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Waterloo Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. 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 District's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Waterloo Community School District's Responses to Findings

Waterloo Community School District's responses to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Waterloo Community School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



HOGAN - HANSEN

Mason City, Iowa
October 31, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133

Board of Education
Waterloo Community School District
Waterloo, Iowa

Report on Compliance for Each Major Federal Program

We have audited Waterloo Community School District'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, 2014. Waterloo Community School District's major federal programs are identified in Part I of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Waterloo Community School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Waterloo Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Waterloo Community School District's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Waterloo Community School District complied, in all material respects, with the types of compliance 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, 2014.

Report on Internal Control Over Compliance

The management of Waterloo Community School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Waterloo Community School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 Waterloo Community School District'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 a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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Mason City, Iowa
October 31, 2014

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Part I: Summary of the Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness identified? yes no

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

Material weakness identified? yes no

Significant deficiency identified not considered to be material weakness? yes no

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

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

Identification of major programs:

CFDA Numbers

Child Nutrition Cluster

10.553

10.555

10.559

93.600

Name of Federal Program or Cluster

School Breakfast Program

National School Lunch Program

Summer Food Service Program
for Children

Head Start

Dollar threshold used to distinguish between Type A and Type B programs: \$364,678

Auditee qualified as low-risk auditee? yes no

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Part II: Findings Related to the Financial Statements

Internal Control Deficiencies

There were no matters reported.

Instances of Noncompliance

There were no current year reported instances of noncompliance.

Part III: Findings and Questioned Costs for Federal Awards

Internal Control Deficiencies

There were no matters reported.

Instances of Noncompliance

There were no current year reported instances of noncompliance.

Part IV: Other Findings Related to Statutory Reporting

- 14-IV-A Certified Budget** - Expenditures for the year ended June 30, 2014 did not exceed the amount budgeted in any program function.
- 14-IV-B Questionable Expenditures** - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's Opinion dated April 25, 1979.
- 14-IV-C Travel Expense** - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- 14-IV-D Business Transactions** - No business transactions between the District and District officials or employees were noted.
- 14-IV-E Bond Coverage** - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- 14-IV-F Board Minutes** - No transactions were found that we believe should have been approved in the Board minutes but were not.

Finding - Certain minutes were not published in the timeframe required by Chapter 279.35 of the Code of Iowa.

Auditor's Recommendation - District staff should furnish a copy of the Board proceedings to the local newspaper and verify they are published within two weeks of each meeting.

District's Response and Corrective Action Plan - Procedures have been revised to ensure minutes are published as required.

Auditor's Conclusion - Response accepted.

Schedule of Findings and Questioned Costs ---

Year Ended June 30, 2014

14-IV-G Certified Enrollment

Finding - One variance in the basic enrollment data certified to the Iowa Department of Education was noted. The District counted a student who had left the District before October 15, 2013.

Auditor's Recommendation - The District should review procedures to ensure accurate counts are taken throughout the year and accurate enrollment data is certified to the Iowa Department of Education.

District's Response and Corrective Action Plan - The District will contact the Iowa Department of Education and Iowa Department of Management notifying them of the above change. The District will continue to monitor reconciliations of District information to information certified to the Iowa Department of Education.

Auditor's Conclusion - Response accepted.

14-IV-H Supplementary Weighting

Finding - Two variances in the supplementary weighting data certified to the Iowa Department of Education were noted. The District counted two courses which did not meet offer and teach requirements. The variances resulted in a decrease in supplementary weighting of 0.50.

Auditor's Recommendation - The District should review procedures to ensure accurate supplementary weighting data is certified to the Iowa Department of Education.

District's Response and Corrective Action Plan - The District will contact the Iowa Department of Education and Iowa Department of Management notifying them of the above changes. The District will continue to monitor classes offered in accordance with offer and teach requirements and will certify supplementary weighting data as required to the Iowa Department of Education.

Auditor's Conclusion - Response accepted.

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

14-IV-J Certified Annual Report

Finding - The Certified Annual Report was certified timely to the Iowa Department of Education, but we noted that the report did not reflect an adjustment related to School Nutrition Fund meal reimbursement receivables. The necessary adjustment was discovered after the report had been certified.

Auditor's Recommendation - School Nutrition Fund meal reimbursements should be accrued based on when the related meals were served and the Certified Annual Report should be reconciled with accounting records and reviewed by a member of management prior to filing.

District's Response and Corrective Action Plan - School Nutrition Fund meal reimbursements will be accrued as necessary and the Certified Annual Report will continue to be reconciled with accounting records and reviewed by a member of management prior to filing.

Auditor's Conclusion - Response accepted.

14-IV-K Categorical Funding - No instances were found of categorical funding being used to supplant rather than supplement other funds.

14-IV-L Statewide Sales, Services and Use Tax - No instances of noncompliance with the allowable use of the statewide sales, services and use tax revenue provided in Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report submitted to the Iowa Department of Education. For the year ended June 30, 2014, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's Certified Annual Report:

Beginning balance.....		\$	419,321
Revenue			
Sales tax revenue	\$	9,395,943	
Other local revenue		32,910	
Federal revenue		<u>820,811</u>	10,249,664
Expenditures/Transfers Out			
School infrastructure construction	\$	6,159,647	
Other		62,905	
Transfer to Other Funds			
Debt Service Fund.....		7,309,628	
General Fund		<u>38,175</u>	<u>13,570,355</u>
Ending Balance			<u>\$ (2,901,370)</u>

For the year ended June 30, 2014, the District did not reduce any levies as a result of the monies received under Chapter 423E or 423F of the Code of Iowa.

Schedule of Findings and Questioned Costs ---

Year Ended June 30, 2014

14-IV-M Deficit Fund Balance

Finding - The District reported a \$2,420,169 deficit Capital Projects Fund balance as of June 30, 2014.

Auditor's Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate this deficit.

District's Response and Corrective Action Plan - We are working on ways to eliminate this deficit.

Auditor's Conclusion - Response accepted.