

WATERLOO LOCAL SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Varney, Fink & Associates, Inc.
Certified Public Accountants



Mary Taylor, CPA
Auditor of State

Board of Education
Waterloo Local School District
1464 Industry Road
Atwater, Ohio 44201

We have reviewed the *Independent Auditor's Report* of the Waterloo Local School District, Portage County, prepared by Varney, Fink & Associates, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Waterloo Local School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 7, 2008

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**WATERLOO LOCAL SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Waterloo Local School District
1464 Industry Road
Atwater, OH 44201

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Waterloo Local School District (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the District, as of June 30, 2007 and the respective changes in financial position, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2008 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR'S REPORT (continued)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

February 15, 2008

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The management's discussion and analysis of the Waterloo Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2007 are as follows:

- In total, net assets of governmental activities decreased \$172,747 which represents a 1.43% decrease from 2006.
- General revenues accounted for \$11,152,805 in revenue or 87.47% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,597,604 or 12.53% of total revenues of \$12,750,409.
- The District had \$12,858,373 in expenses related to governmental activities; a special item of \$64,783 which was the disbursement of interest from the Ohio School Facilities Commission; \$1,597,604 of these expenses and special item was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$11,152,805 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund, bond retirement fund and classroom facilities fund. The general fund had \$10,134,915 in revenues and \$10,149,322 in expenditures. During fiscal year 2007, the general fund's fund balance decreased \$11,565 from \$1,216,029 to \$1,204,464.
- The bond retirement fund had \$791,136 in revenues and \$881,603 in expenditures. During fiscal year 2007, the bond retirement fund's fund balance decreased \$90,467 from \$693,429 to \$602,962.
- The classroom facilities fund had \$175,447 in revenues and \$64,783 in expenditures as a special item. During fiscal year 2007, the classroom facilities fund's fund balance increased \$110,664 from \$845,980 to \$956,644.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund, bond retirement fund and classroom facilities fund are by far the most significant funds, and the only governmental funds reported as major funds.

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation of non-instructional services, extracurricular activities, and intergovernmental operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, bond retirement fund and classroom facilities fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 20. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 21-45 of this report.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2007 and 2006.

	Net Assets	
	Governmental Activities 2007	Governmental Activities 2006
<u>Assets</u>		
Current and other assets	\$ 9,154,539	\$ 9,028,942
Capital assets, net	<u>18,325,614</u>	<u>19,021,306</u>
Total assets	<u>27,480,153</u>	<u>28,050,248</u>
<u>Liabilities</u>		
Current liabilities	5,298,846	5,279,701
Long-term liabilities	<u>10,267,498</u>	<u>10,683,991</u>
Total liabilities	<u>15,566,344</u>	<u>15,963,692</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	9,173,782	9,493,512
Restricted	2,482,028	2,194,882
Unrestricted	<u>257,999</u>	<u>398,162</u>
Total net assets	<u>\$ 11,913,809</u>	<u>\$ 12,086,556</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$11,913,809.

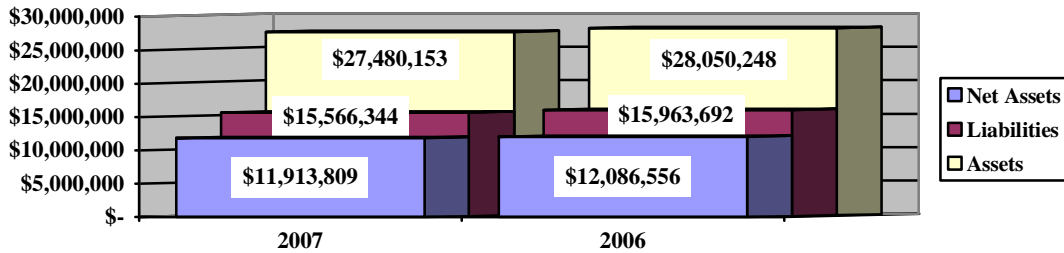
At year-end, capital assets represented 66.69% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2007, were \$9,173,782. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$2,482,028, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$257,999 may be used to meet the District's ongoing obligations to the students and creditors.

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Governmental Activities



The table below shows the change in net assets for fiscal year 2007 and 2006.

Change in Net Assets

	Governmental Activities 2007	Governmental Activities 2006
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 551,062	\$ 555,730
Operating grants and contributions	1,018,645	796,484
Capital grants and contributions	27,897	4,595
General revenues:		
Property taxes	4,050,764	3,738,110
Grants and entitlements	6,654,920	6,240,634
Investment earnings	266,022	213,453
Other	181,099	43,542
Total revenues	<u>12,750,409</u>	<u>11,592,548</u>

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Change in Net Assets	
	Governmental Activities	Governmental Activities
	<u>2007</u>	<u>2006</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 5,474,145	\$ 5,377,340
Special	1,342,422	1,211,160
Vocational	38,900	34,371
Other	7,050	21,383
Support services:		
Pupil	467,498	508,313
Instructional staff	514,394	509,102
Board of education	19,161	31,290
Administration	1,114,327	1,096,337
Fiscal	328,237	321,203
Business	36,411	38,994
Operations and maintenance	1,110,820	1,092,666
Pupil transportation	981,683	941,529
Central	17,504	11,676
Food service operations	429,130	421,927
Operations of non-instructional services	11,739	5,930
Extracurricular activities	372,607	338,830
Intergovernmental	85,694	100,901
Interest and fiscal charges	<u>506,651</u>	<u>395,811</u>
Total expenses	<u>12,858,373</u>	<u>12,458,763</u>
Special Item:		
OSFC interest disbursement	<u>(64,783)</u>	<u>-</u>
Change in net assets	(172,747)	(866,215)
Net assets at beginning of year	<u>12,086,556</u>	<u>12,952,771</u>
Net assets at end of year	<u>\$ 11,913,809</u>	<u>\$ 12,086,556</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$172,747. Total governmental expenses of \$12,858,373 and a special item of \$64,783 were offset by program revenues of \$1,597,604 and general revenues of \$11,152,805. Program revenues supported 12.42% of the total governmental expenses.

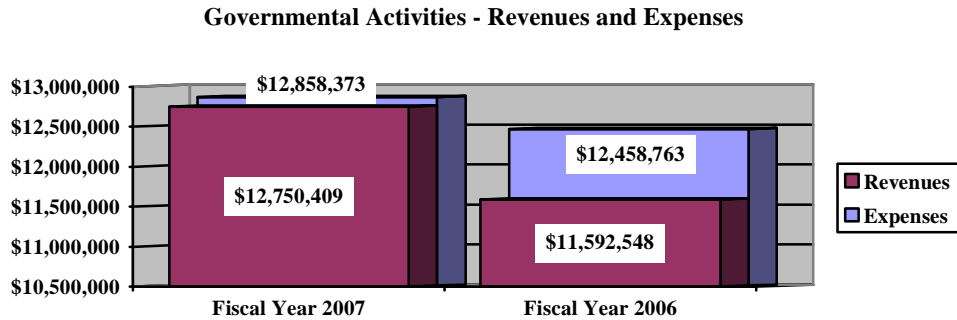
The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 83.96% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$6,862,517 or 53.37% of total governmental expenses for fiscal 2007.

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2007 and 2006.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

	Total Cost of Services <u>2007</u>	Net Cost of Services <u>2007</u>	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>
Program expenses				
Instruction:				
Regular	\$ 5,474,145	\$ 5,214,614	\$ 5,377,340	\$ 5,121,566
Special	1,342,422	843,103	1,211,160	851,250
Vocational	38,900	38,672	34,371	34,371
Other	7,050	951	21,383	18,598
Support services:				
Pupil	467,498	372,159	508,313	467,958
Instructional staff	514,394	503,278	509,102	494,304
Board of education	19,161	19,161	31,290	31,290
Administration	1,114,327	1,050,574	1,096,337	1,043,896
Fiscal	328,237	327,384	321,203	321,203
Business	36,411	36,411	38,994	38,994
Operations and maintenance	1,110,820	1,077,461	1,092,666	1,059,118
Pupil transportation	981,683	960,319	941,529	908,858
Central	17,504	12,504	11,676	6,676
Food service operations	429,130	36,553	421,927	51,011
Operations of non-instructional services	11,739	940	5,930	895
Extracurricular activities	372,607	272,938	338,830	253,526
Intergovernmental	85,694	(12,904)	100,901	2,629
Interest and fiscal charges	506,651	506,651	395,811	395,811
Total expenses	<u>\$ 12,858,373</u>	<u>\$ 11,260,769</u>	<u>\$ 12,458,763</u>	<u>\$ 11,101,954</u>

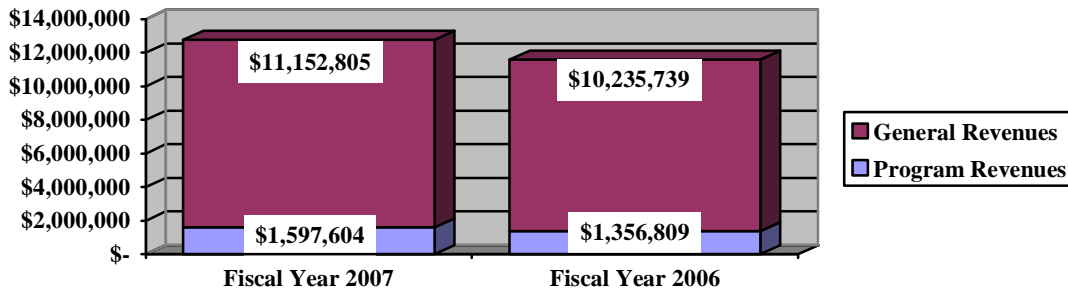
**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The dependence upon tax and other general revenues for governmental activities is apparent, 88.85% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 87.58%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2007 and 2006.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$3,473,791, which is higher than last year's total of \$3,396,757. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	Fund Balance <u>June 30, 2007</u>	Fund Balance <u>June 30, 2006</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
General	\$ 1,204,464	\$ 1,216,029	\$ (11,565)	(0.95) %
Bond Retirement	602,962	693,429	(90,467)	(13.05) %
Classroom Facilities	956,644	845,980	110,664	13.08 %
Other Governmental	<u>709,721</u>	<u>641,319</u>	<u>68,402</u>	10.67 %
Total	<u>\$ 3,473,791</u>	<u>\$ 3,396,757</u>	<u>\$ 77,034</u>	2.27 %

General Fund

The District's general fund balance decreased \$11,565. The decrease in fund balance can be attributed to several items related to increased revenues and increased expenditures. Expenditures exceed revenues by \$14,407. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 3,074,399	\$ 2,839,509	\$ 234,890	8.27 %
Tuition	142,249	153,396	(11,147)	(7.27) %
Earnings on investments	216,259	161,903	54,356	33.57 %
Intergovernmental	6,605,346	6,122,511	482,835	7.89 %
Other revenues	<u>96,662</u>	<u>81,798</u>	<u>14,864</u>	18.17 %
Total	<u>\$ 10,134,915</u>	<u>\$ 9,359,117</u>	<u>\$ 775,798</u>	8.29 %
<u>Expenditures</u>				
Instruction	\$ 5,834,753	\$ 5,555,425	\$ 279,328	5.03 %
Support services	4,087,969	4,209,644	(121,675)	(2.89) %
Extracurricular activities	203,368	196,535	6,833	3.48 %
Facilities acquisition and construction	-	139	(139)	(100.00) %
Debt service	<u>23,232</u>	<u>23,232</u>	<u>-</u>	- %
Total	<u>\$ 10,149,322</u>	<u>\$ 9,984,975</u>	<u>\$ 164,347</u>	1.65 %

Bond Retirement Fund

The bond retirement fund had \$791,136 in revenues and \$881,603 in expenditures. During fiscal year 2007, the bond retirement fund's fund balance decreased \$90,467 from \$693,429 to \$602,962.

Classroom Facilities Fund

The classroom facilities fund had \$175,447 in revenues and \$64,783 in a special item. During fiscal year 2007, the classroom facilities fund's fund balance increased \$110,664 from \$845,980 to \$956,644.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal 2007, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$9,486,299 and final budgeted revenues and other financing sources were \$10,170,362. Actual revenues and other financing sources for fiscal 2007 was \$10,233,544. This represents a \$63,182 increase from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$11,079,088 were decreased to \$10,762,575 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2007 were unchanged from the final appropriations.

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, the District had \$18,325,614 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2007 balances compared to 2006:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2007	2006
Land	\$ 299,298	\$ 299,298
Land improvements	599,314	648,877
Building and improvements	16,371,231	16,858,048
Furniture and equipment	684,165	819,128
Vehicles	371,606	395,955
Total	\$ 18,325,614	\$ 19,021,306

The overall decrease in capital assets of \$695,692 is due to depreciation expense of \$778,115 exceeding capital outlays of \$85,226 and disposals (net of accumulated depreciation) of \$2,803 in the fiscal year.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2007, the District had \$9,320,238 in general obligation bonds and \$55,742 in capital lease obligations outstanding. Of this total, \$437,365 is due within one year and \$8,938,615 is due within greater than one year. The following table summarizes the bonds and capital lease obligations outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2007	2006
General obligation bonds	\$ 9,320,238	\$ 9,724,172
Capital lease obligations	55,742	73,828
Total	\$ 9,375,980	\$ 9,798,000

See Note 10 to the basic financial statements for additional information on the District's debt administration.

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Current Financial Related Activities

Currently, the District's Five Year Forecast shows a positive fund balance through fiscal year 2009. The District relies heavily upon grants, entitlements and property taxes. Since future grant and entitlement revenue is expected to decrease, the reliance upon local taxes is increasingly important. The District is in a situation where an operating levy may have to be passed by District voters in 2008 in order for the District to obtain the necessary funds to meet its future operating expenses. Without the passage of a new operating levy, the District will be facing many challenges in the future.

Since the District relies on the State for approximately 59% of general operating revenues, one of the largest challenges facing the District is that of state funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither, "adequate" nor "equitable". On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. At this time, the District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

In conclusion, the District's system of budgeting and internal controls has been well regarded. The last time the voters were asked for new operating money was in 1995. The five-year forecast is utilized by the School Board and Administration to effectively and efficiently manage the District's resources to the fullest.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Todd Carpenter, Treasurer, Waterloo Local School District, 1464 Industry Road, Atwater, Ohio 44201.

BASIC
FINANCIAL STATEMENTS

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 4,485,598
Cash with fiscal agent	5,925
Receivables:	
Taxes	4,328,191
Accounts	2,395
Intergovernmental	148,906
Accrued interest	12,558
Materials and supplies inventory	46,502
Unamortized bond issue costs	124,464
Capital assets:	
Land	299,298
Depreciable capital assets, net	18,026,316
Capital assets, net.	<u>18,325,614</u>
 Total assets.	 <u>27,480,153</u>
 Liabilities:	
Accounts payable.	58,181
Accrued wages and benefits	950,162
Pension obligation payable.	264,657
Intergovernmental payable	38,350
Unearned revenue	3,921,130
Matured interest payable	5,925
Accrued interest payable	60,441
Long-term liabilities:	
Due within one year.	622,856
Due within more than one year	9,644,642
 Total liabilities	 <u>15,566,344</u>
 Net Assets:	
Invested in capital assets, net of related debt.	9,173,782
Restricted for:	
Capital projects	985,791
Debt service.	575,174
Classroom facilities maintenance	360,985
State funded programs	2,000
Federal funded programs	17,072
Student activities	15,000
Other purposes	526,006
Unrestricted.	<u>257,999</u>
 Total net assets	 <u>\$ 11,913,809</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental activities:					
Instruction:					
Regular	\$ 5,474,145	\$ 188,683	\$ 53,956	\$ 16,892	\$ (5,214,614)
Special	1,342,422	-	499,319	-	(843,103)
Vocational	38,900	-	228	-	(38,672)
Other	7,050	-	6,099	-	(951)
Support services:					
Pupil	467,498	-	95,339	-	(372,159)
Instructional staff	514,394	-	11,116	-	(503,278)
Board of education	19,161	-	-	-	(19,161)
Administration	1,114,327	53,200	10,553	-	(1,050,574)
Fiscal	328,237	-	853	-	(327,384)
Business	36,411	-	-	-	(36,411)
Operations and maintenance	1,110,820	-	33,359	-	(1,077,461)
Pupil transportation	981,683	-	10,359	11,005	(960,319)
Central	17,504	-	5,000	-	(12,504)
Operation of non-instructional services:					
Food service operations	429,130	209,123	183,454	-	(36,553)
Other non-instructional services	11,739	604	10,195	-	(940)
Extracurricular activities	372,607	99,452	217	-	(272,938)
Intergovernmental pass-through	85,694	-	98,598	-	12,904
Interest and fiscal charges	506,651	-	-	-	(506,651)
Total governmental activities	\$ 12,858,373	\$ 551,062	\$ 1,018,645	\$ 27,897	(11,260,769)
General Revenues:					
Property taxes levied for:					
General purposes					3,111,955
Special revenue					229,985
Debt service					708,824
Grants and entitlements not restricted to specific programs					6,654,920
Investment earnings					266,022
Miscellaneous					181,099
Total general revenues					11,152,805
Special item:					
OSFC interest disbursement					(64,783)
Change in net assets					(172,747)
Net assets at beginning of year					12,086,556
Net assets at end of year					\$ 11,913,809

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	<u>General</u>	<u>Bond Retirement</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 2,241,031	\$ 567,714	\$ 956,644	\$ 713,002	\$ 4,478,391
Cash with fiscal agent	-	5,925	-	-	5,925
Receivables:					
Taxes	3,344,333	739,856	-	244,002	4,328,191
Accounts	2,029	-	-	366	2,395
Intergovernmental	-	-	-	148,906	148,906
Accrued interest	11,289	-	-	1,269	12,558
Interfund receivable	50,830	-	-	-	50,830
Materials and supplies inventory	32,088	-	-	14,414	46,502
Restricted assets:					
Equity in pooled cash and cash equivalents	7,207	-	-	-	7,207
Total assets	<u>\$ 5,688,807</u>	<u>\$ 1,313,495</u>	<u>\$ 956,644</u>	<u>\$ 1,121,959</u>	<u>\$ 9,080,905</u>
Liabilities:					
Accounts payable	\$ 48,525	\$ -	\$ -	\$ 9,656	\$ 58,181
Accrued wages and benefits	862,544	-	-	87,618	950,162
Compensated absences payable	95,586	-	-	7,316	102,902
Matured interest payable.	-	5,925	-	-	5,925
Pension obligation payable.	244,111	-	-	20,546	264,657
Intergovernmental payable.	34,542	-	-	3,808	38,350
Interfund payable.	-	-	-	50,830	50,830
Deferred revenue.	171,857	32,362	-	10,758	214,977
Unearned revenue	3,027,178	672,246	-	221,706	3,921,130
Total liabilities	<u>4,484,343</u>	<u>710,533</u>	<u>-</u>	<u>412,238</u>	<u>5,607,114</u>
Fund Balances:					
Reserved for encumbrances	473,271	-	-	44,755	518,026
Reserved for materials and supplies inventory.	32,088	-	-	14,414	46,502
Reserved for property tax unavailable for appropriation	145,298	35,248	-	11,538	192,084
Reserved for debt service	-	567,714	-	-	567,714
Reserved for school bus purchases	7,207	-	-	-	7,207
Unreserved:					
Designation for budget stabilization	507,799	-	-	-	507,799
Undesignated, reported in:					
General fund	38,801	-	-	-	38,801
Special revenue funds.	-	-	-	609,867	609,867
Capital projects funds.	-	-	956,644	29,147	985,791
Total fund balances	<u>1,204,464</u>	<u>602,962</u>	<u>956,644</u>	<u>709,721</u>	<u>3,473,791</u>
Total liabilities and fund balances	<u>\$ 5,688,807</u>	<u>\$ 1,313,495</u>	<u>\$ 956,644</u>	<u>\$ 1,121,959</u>	<u>\$ 9,080,905</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2007

Total governmental fund balances		\$	3,473,791
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			18,325,614
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	214,977	
Total			214,977
Unamortized bond issuance costs are not recognized in the funds governmental activities in the statement of net assets.			124,464
Unamortized deferred charges on refundings are not recognized in the funds.			590,128
Unamortized premiums on bond issuance is not recognized in the funds.			(696,240)
Accrued interest payable is not due and payable in the current period and is therefore not reported in the funds.			(60,441)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds payable		9,320,238	
Capital lease obligation		55,742	
Compensated absences		682,504	
Total			(10,058,484)
Net assets of governmental activities		\$	11,913,809

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Bond Retirement</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Taxes	\$ 3,074,399	\$ 705,034	\$ -	\$ 228,335	\$ 4,007,768
Tuition	142,249	-	-	-	142,249
Earnings on investments	216,259	-	49,763	19,163	285,185
Charges for services	-	-	-	209,123	209,123
Extracurricular	-	-	-	152,652	152,652
Classroom materials and fees	46,434	-	-	-	46,434
Other local revenues	50,228	-	125,684	9,270	185,182
Intergovernmental - State	6,605,346	86,102	-	197,348	6,888,796
Intergovernmental - Federal	-	-	-	799,896	799,896
Total revenue	<u>10,134,915</u>	<u>791,136</u>	<u>175,447</u>	<u>1,615,787</u>	<u>12,717,285</u>
Expenditures:					
Current:					
Instruction:					
Regular	4,937,153	-	-	239,573	5,176,726
Special	857,813	-	-	461,361	1,319,174
Vocational	38,804	-	-	-	38,804
Other	983	-	-	6,067	7,050
Support services:					
Pupil	401,365	-	-	89,700	491,065
Instructional staff	469,430	-	-	13,303	482,733
Board of education	19,161	-	-	-	19,161
Administration	922,461	3,332	-	78,563	1,004,356
Fiscal	307,732	11,496	-	3,717	322,945
Business	23,568	-	-	-	23,568
Operations and maintenance	977,699	-	-	53,022	1,030,721
Pupil transportation	954,049	-	-	7,183	961,232
Central	12,504	-	-	5,000	17,504
Food service operations	-	-	-	386,449	386,449
Other non-instructional services	-	-	-	9,964	9,964
Extracurricular activities	203,368	-	-	110,727	314,095
Intergovernmental pass-through	-	-	-	85,694	85,694
Debt service:					
Principal retirement	18,086	510,000	-	-	528,086
Interest and fiscal charges	5,146	356,775	-	-	361,921
Total expenditures	<u>10,149,322</u>	<u>881,603</u>	<u>-</u>	<u>1,550,323</u>	<u>12,581,248</u>
Excess of revenues over (under) expenditures	<u>(14,407)</u>	<u>(90,467)</u>	<u>175,447</u>	<u>65,464</u>	<u>136,037</u>
Special item:					
OSFC interest disbursement	-	-	(64,783)	-	(64,783)
Net change in fund balances	(14,407)	(90,467)	110,664	65,464	71,254
Fund balances at beginning of year	1,216,029	693,429	845,980	641,319	3,396,757
Increase in reserve for inventory	2,842	-	-	2,938	5,780
Fund balances at end of year	<u>\$ 1,204,464</u>	<u>\$ 602,962</u>	<u>\$ 956,644</u>	<u>\$ 709,721</u>	<u>\$ 3,473,791</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds	\$	71,254
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 85,226	
Depreciation expense	<u>(778,115)</u>	
Total		(692,889)
The net effect of various miscellaneous transactions involving capital assets (i.e., disposals, sales, trade-ins, and donations) is to decrease net assets.		
		(2,803)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		
		5,780
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	42,996	
Intergovernmental	<u>(9,872)</u>	
Total		33,124
Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		528,086
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The following resulted in additional interest being reported on the statement of activities:		
Increase in accrued interest payable	(36,546)	
Accreted interest on "capital appreciation" bonds	(106,066)	
Amortization of bond issuance costs	(6,915)	
Amortization on bond premiums	38,680	
Amortization of deferred charge on refunding	<u>(33,883)</u>	
Total		(144,730)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
		<u>29,431</u>
Change in net assets of governmental activities	\$	<u>(172,747)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 3,326,064	\$ 3,456,558	\$ 3,122,360	\$ (334,198)
Tuition.	123,227	134,300	142,249	7,949
Earnings on investments.	176,136	191,964	203,326	11,362
Classroom materials and fees	40,335	43,960	46,562	2,602
Other local revenues	31,082	33,875	35,880	2,005
Intergovernmental - State	<u>5,722,041</u>	<u>6,236,233</u>	<u>6,605,346</u>	<u>369,113</u>
Total revenue	<u>9,418,885</u>	<u>10,096,890</u>	<u>10,155,723</u>	<u>58,833</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,180,500	5,032,502	5,032,502	-
Special.	1,096,933	1,065,595	1,065,595	-
Vocational.	39,013	37,898	37,898	-
Other.	1,179	1,145	1,145	-
Support services:				
Pupil.	438,915	426,376	426,376	-
Instructional staff	530,948	515,780	515,780	-
Board of education	23,782	23,103	23,103	-
Administration.	1,017,403	988,337	988,337	-
Fiscal	325,902	316,591	316,591	-
Business	57,524	55,881	55,881	-
Operations and maintenance.	1,073,845	1,043,167	1,043,167	-
Pupil transportation	1,011,611	982,711	982,711	-
Central.	12,586	12,226	12,226	-
Extracurricular activities.	215,798	209,633	209,633	-
Facilities acquisition and construction.	824	800	800	-
Total expenditures	<u>11,026,763</u>	<u>10,711,745</u>	<u>10,711,745</u>	<u>-</u>
Excess of revenues under expenditures.	<u>(1,607,878)</u>	<u>(614,855)</u>	<u>(556,022)</u>	<u>58,833</u>
Other financing sources (uses):				
Advances in.	54,734	59,652	63,183	3,531
Advances (out)	(52,325)	(50,830)	(50,830)	-
Sale of capital assets.	8,098	8,826	9,348	522
Refund of prior year expenditure.	4,582	4,994	5,290	296
Total other financing sources (uses)	<u>15,089</u>	<u>22,642</u>	<u>26,991</u>	<u>4,349</u>
Net change in fund balance	(1,592,789)	(592,213)	(529,031)	63,182
Fund balance at beginning of year.	1,704,132	1,704,132	1,704,132	-
Prior year encumbrances appropriated	528,828	528,828	528,828	-
Fund balance at end of year	<u>\$ 640,171</u>	<u>\$ 1,640,747</u>	<u>\$ 1,703,929</u>	<u>\$ 63,182</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 23,172
Total assets.	\$ 23,172
Liabilities:	
Accounts payable.	\$ 171
Due to students	23,001
Total liabilities	\$ 23,172

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Waterloo Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education and is responsible for providing public education to residents of the District.

The District ranks as the 404th largest by total enrollment among the 876 public school districts in the state. The District's enrollment as of June 30, 2007 was 1,388. The District employed 101 certified employees and 56 non-certified employees.

Management believes the financial statements included in this report represent all of the funds of the District over which the District has the ability to exercise direct operating control.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity", and as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food services, preschool and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

JOINTLY GOVERNED ORGANIZATIONS

Stark Portage Area Computer Consortium (SPARCC)

SPARCC is a data consortium of 31 school districts. SPARCC was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions among member districts. Each of the governments of these schools supports SPARCC based upon a per pupil charge, dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last 12 months' financial contribution. SPARCC is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the District does not have any equity interest in SPARCC because a residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest.

Financial information can be obtained from the Treasurer for the Stark County Educational Service Center, who serves as fiscal agent, at 2100 39th Street NW, Canton, Ohio 44709-2300.

Portage Area School Consortium

The Portage Area School Consortium (the "Consortium") is a regional council of governments established pursuant to Chapter 167 of the Ohio Revised Code, consisting of various school districts in the Portage County, Ohio area. The Consortium is a stand-alone entity, comprised of two stand-alone pools; the Portage Area School Consortium Property and Casualty Pool and the Portage Area School Consortium Health and Welfare Insurance Pool. These pools were established by the Consortium on August 5, 1988 to provide property and casualty risk management services and risk sharing to its members. The pools were established as local government risk pools under Section 1744.081 of the Ohio Revised Code and are not subject to federal tax filing requirements.

INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond Retirement Fund - A fund provided for the retirement of serial bonds and short term loans. All revenue derived from general or special levies, either within or exceeding the ten-mill limitation which is levied for debt charges on bonds or loans, shall be paid into this fund.

Classroom Facilities Fund - The classroom facilities capital projects fund is used to account for monies received and expended in connection with contracts entered into by the District and the Ohio Department of Education for the building and equipping of classroom facilities.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities; (b) for grants and other resources whose use is restricted to a particular purpose; and (c) food services and uniform school supplies operations.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2007 are recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2007 is as follows:

1. On or before February 1, the fiscal officer of the District must submit the alternative tax budget for the subsequent fiscal year to the Portage County Auditor. The alternative tax budget includes all proposed expenditures and the means of financing these expenditures for all funds. The expressed purpose of the alternative tax budget is to reflect the need for existing (or increased) tax rates, as determined by the Portage County Budget Commission.

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

2. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final amended certificates issued for fiscal year 2007.
3. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
4. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
6. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2007, however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
7. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2007, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). Investments in STAR Ohio are reported at fair value, which is based on quoted market prices.

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The District has invested funds in STAR Ohio during fiscal 2007. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2007.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$216,259, which includes \$74,797 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year-end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the purchase method.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets are those assets specifically related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2007, the District maintained a capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	5 - 20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	5 - 10 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2007, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service or any age with twenty years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2007, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Unamortized Issuance Costs/Bond Premium and Discount/Accounting Gain or Loss

On government-wide financial statements, issuance costs are defined and amortized over the term of the bonds using the straight line method, which approximates the effective interest method. Unamortized issuance costs are recorded as a separate line item on the Statement of Net Assets.

Bond premiums are deferred and accreted over the term of the bonds. Bond premiums are presented as an addition to the face amount of the bonds.

For bond refunds resulting in the defeasance of the debt reported in the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as an addition to or reduction of the face amount of the new debt.

On the governmental fund financial statements, issuance costs and bond premiums are recognized in the current period. A reconciliation between the bonds face value and the amount reported on the statement of net assets is presented in Note 10.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

M. Fund Balance Reserves and Designations

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, property tax unavailable for appropriation, debt service, and school bus purchases. Fund balance has also been designated for budget stabilization. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute. The designation for budget stabilization represents revenues set aside that exceed statutorily required amounts.

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The net assets restricted for other purposes represent underground storage tank monies.

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

O. Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

P. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a school bus purchase reserve. This reserve is required by state statute. A schedule of statutory reserves is presented in Note 16.

Q. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. On June 29, 2007, the District disbursed \$64,783 to the Ohio School Facilities Commission (OSFC) for interest that was earned on OSFC monies held by the District during the construction project. This disbursement is reported as a special item in the basic financial statements.

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 3 - ACCOUNTABILITY & COMPLIANCE

Deficit Fund Balances

Fund balances at June 30, 2007 included the following individual fund deficits:

<u>Nonmajor Governmental Funds</u>	<u>Deficit</u>
Entry Year Programs	\$ 2,400
Ohio Reads	9
Poverty Aid	5

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. These deficit fund balances are the result of adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim moneys are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies are to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio) investment pool;
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Protection of District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At year-end, the District had \$2,150 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents".

B. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all District deposits was \$1,543,138. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$200,000 of the District's bank balance of \$1,713,209 was covered by the Federal Deposit Insurance Corporation, while \$1,513,209 was exposed to custodial risk as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

As of June 30, 2007, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</u> 6 months or less
STAR Ohio	\$ 2,969,407	\$ 2,969,407

The weighted average maturity of investments is one day.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 2,969,407	100.00%

D. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note disclosure above to cash and investments as reported on the statement of net assets as of June 30, 2007:

<u>Cash and Investments per Note Disclosure</u>	
Carrying amount of deposits	\$ 1,543,138
Investments	2,969,407
Cash on hand	<u>2,150</u>
Total	<u>\$ 4,514,695</u>

<u>Cash and Investments per Statement of Net Assets</u>	
Governmental activities	\$ 4,491,523
Agency fund	<u>23,172</u>
Total	<u>\$ 4,514,695</u>

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 5 - INTERFUND TRANSACTIONS

At June 30, 2007, interfund balances consisted of the following interfund loans receivable and payable, as reported in the fund financial statements:

<u>Interfund loans receivable reported in the General fund:</u>	<u>Amount</u>
Nonmajor governmental funds	\$ 50,830

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2007 are reported on the statement of net assets.

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. For 2006, tangible personal property was assessed at 18.75% for property including inventory. This percentage was reduced to 12.5% for 2007, 6.25% for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 6 - PROPERTY TAXES - (Continued)

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Portage County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

The amounts available as an advance at June 30, 2007 were \$145,298 in the general fund, \$35,248 in the bond retirement debt service fund, \$8,740 in the emergency levy special revenue fund (a nonmajor governmental fund), and \$2,798 in the classroom facilities maintenance special revenue fund (a nonmajor governmental fund). These amounts have been recorded as revenue. The amounts available as an advance at June 30, 2006 were \$193,259 in the general fund, \$51,964 in the bond retirement debt service fund, \$12,426 in the emergency levy special revenue fund, and \$3,993 in the classroom facilities maintenance special revenue fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 137,399,760	91.98	\$ 152,347,260	93.86
Public utility personal	5,562,120	3.73	5,267,960	3.25
Tangible personal property	<u>6,427,970</u>	<u>4.29</u>	<u>4,705,536</u>	<u>2.89</u>
Total	<u>\$ 149,389,850</u>	<u>100.00</u>	<u>\$ 162,320,756</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
General operations	\$ 55.06		\$ 54.31	
Bonded debt	4.88		4.88	

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 7 - RECEIVABLES

Receivables at June 30, 2007 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

<u>Governmental Activities:</u>	<u>Amount</u>
Taxes	\$ 4,328,191
Accounts	2,395
Intergovernmental	148,906
Accrued interest	<u>12,558</u>
 Total	 <u>\$ 4,492,050</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

<u>Governmental Activities</u>	<u>Balance</u> <u>06/30/06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/07</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 299,298	\$ -	\$ -	\$ 299,298
<i>Total capital assets, not being depreciated</i>	<u>299,298</u>	<u>-</u>	<u>-</u>	<u>299,298</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	882,232	-	-	882,232
Buildings and improvements	20,344,405	2,608	-	20,347,013
Equipment and furniture	1,538,909	-	-	1,538,909
Vehicles	<u>1,259,753</u>	<u>82,618</u>	<u>(155,464)</u>	<u>1,186,907</u>
<i>Total capital assets, being depreciated</i>	<u>24,025,299</u>	<u>85,226</u>	<u>(155,464)</u>	<u>23,955,061</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(233,355)	(49,563)	-	(282,918)
Buildings and improvements	(3,486,357)	(489,425)	-	(3,975,782)
Equipment and furniture	(719,781)	(134,963)	-	(854,744)
Vehicles	<u>(863,798)</u>	<u>(104,164)</u>	<u>152,661</u>	<u>(815,301)</u>
<i>Total accumulated depreciation</i>	<u>(5,303,291)</u>	<u>(778,115)</u>	<u>152,661</u>	<u>(5,928,745)</u>
Total capital assets, net	<u>\$ 19,021,306</u>	<u>\$ (692,889)</u>	<u>\$ (2,803)</u>	<u>\$ 18,325,614</u>

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 312,727
Special	15,792
<u>Support Services:</u>	
Pupil	10,187
Instructional staff	37,459
Administration	87,838
Fiscal	4,244
Business	12,843
Operations and maintenance	80,082
Pupil transportation	106,021
Extracurricular activities	58,512
Food service operations	<u>52,410</u>
Total depreciation expense	<u>\$ 778,115</u>

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

During fiscal year 2005, the District entered into a lease agreement for copiers. This lease agreement meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for governmental funds. These expenditures are reported as function expenditures in the budgetary statements.

Capital assets consisting of copiers acquired by lease have been capitalized in the amount of \$95,846. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Accumulated depreciation as of June 30, 2007 was \$29,953, leaving a current book value of \$65,894. Principal payments in fiscal year 2007 totaled \$18,086 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2007:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2008	\$ 23,231
2009	23,231
2010	<u>15,489</u>
Total	61,951
Less: amount representing interest	<u>(6,209)</u>
Present value	<u>\$ 55,742</u>

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2007, the following changes occurred in governmental activities long-term obligations. Compensated absences will be paid out of the fund from which the employee is paid, primarily the General fund.

	Balance at <u>June 30, 2006</u>	<u>Additions</u>	<u>Reductions</u>	Balance at <u>June 30, 2007</u>	Amounts Due in <u>One Year</u>
<u>General obligation bonds:</u>					
Series 2001 construction:					
Current interest	\$ 1,435,000	\$ -	\$ -	\$ 1,435,000	\$ -
Capital appreciation	373,967	-	(197,876)	176,091	176,091
Accreted interest	254,552	49,291	(152,124)	151,719	151,719
Series 2006 refunding:					
Current interest	7,480,000	-	(160,000)	7,320,000	90,000
Capital appreciation	164,999	-	-	164,999	-
Accreted interest	15,654	56,775	-	72,429	-
<u>Other long-term obligations:</u>					
Capital lease obligation	73,828	-	(18,086)	55,742	19,555
Compensated absences	<u>775,082</u>	<u>129,815</u>	<u>(119,491)</u>	<u>785,406</u>	<u>185,491</u>
Total	<u>\$ 10,573,082</u>	<u>\$ 235,881</u>	<u>\$ (647,577)</u>	10,161,386	<u>\$ 622,856</u>
Less: Unamortized deferred charge on refunding				(590,128)	
Add: Unamortized premium on refunding				<u>696,240</u>	
Total on statement of net assets				<u>\$ 10,267,498</u>	

B. General Obligation Bonds - Series 2001 Construction

On May 3, 2001, the District issued general obligation bonds to provide funds for the construction and renovation of the high school to house grades K-12 and the abandonment and demolition of the current elementary and middle schools (hereinafter called "Construction Project"). These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund. The source of payment is derived from a current 7.45 mills bonded debt tax levy.

These bonds represent the amount of the Construction Project that the District itself was required to finance, in accordance with the terms of a facilities grant from the Ohio School Facilities Commission (OSFC). OSFC will make quarterly disbursements to the District as the project is completed. As of June 30, 2007, the total cost of the Construction Project was \$25,522,356, of which the OSFC paid \$15,087,193.

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

In conjunction with the 7.45 mills which support the bond issue, the District also passed in fiscal 2001 a .5 mill levy to ultimately fund the maintenance costs of the new facilities. Tax revenue from this levy has been reported in the special revenue funds.

This issue is comprised of both current interest bonds, par value \$10,345,000, and capital appreciation bonds, par value \$695,000. The interest rates on the current interest bonds range from 3.45% to 5.125%. The capital appreciation bonds mature on December 1, 2006 (effective interest 10.49%) and December 1, 2007 (effective interest 10.49%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date.

During fiscal year 2006, the District refunded the callable portion (\$7,645,000) of the current interest bonds. None of the capital appreciation bonds were refunded. Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2011.

The following is a summary of the future debt service requirements to maturity for the 2001 series general obligation bonds:

Fiscal Year Ending June 30	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ -	\$ -	\$ -	\$ 176,091	\$ 168,909	\$ 345,000
2009	320,000	463,453	783,453	-	-	-
2010	335,000	449,183	784,183	-	-	-
2011	380,000	433,282	813,282	-	-	-
2012	400,000	415,732	815,732	-	-	-
Total	<u>\$ 1,435,000</u>	<u>\$ 1,761,650</u>	<u>\$ 3,196,650</u>	<u>\$ 176,091</u>	<u>\$ 168,909</u>	<u>\$ 345,000</u>

C. General Obligation Bonds - Series 2006 Refunding

On March 1, 2006, the District issued general obligation bonds (Series 2006 Refunding Bonds) to advance refund a portion of the Series 2001 Current Interest General Obligation Bonds (principal \$9,415,000). The issuance proceeds of \$7,644,999 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets.

The refunding issue is comprised of both current interest bonds, par value \$7,480,000, and capital appreciation bonds, par value \$164,999. The capital appreciation bonds mature December 1, 2012 and December 1, 2013 at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2007 was \$164,999. Total accreted interest of \$72,429 has been included in the statement of activities.

The reacquisition price exceeded the net carrying amount of the old debt by \$635,305. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next nineteen years by \$509,031 resulting in an economic gain of \$366,308.

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

The following is a summary of the future debt service requirements to maturity for the 2007 series refunding bonds:

Fiscal Year Ending June 30	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 90,000	\$ 288,800	\$ 378,800	\$ -	\$ -	\$ -
2009	95,000	285,563	380,563	-	-	-
2010	95,000	282,238	377,238	-	-	-
2011	100,000	278,825	378,825	-	-	-
2012	105,000	275,238	380,238	-	-	-
2013 - 2017	1,620,000	1,271,400	2,891,400	164,999	1,020,001	1,185,000
2018 - 2022	3,090,000	743,400	3,833,400	-	-	-
2023 - 2025	2,125,000	129,700	2,254,700	-	-	-
Total	<u>\$ 7,320,000</u>	<u>\$ 3,555,164</u>	<u>\$ 10,875,164</u>	<u>\$ 164,999</u>	<u>\$ 1,020,001</u>	<u>\$ 1,185,000</u>

D. Legal Debt Margins

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margins has been modified by House Bill 530, which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculations excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2007, are a legal voted debt margin of \$5,218,125 (including available funds of \$602,962) and a legal unvoted debt margin of \$152,347.

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The District maintains comprehensive insurance coverage with private carriers for health care, real property, building contents, vehicles and employee bonds. Vehicle policies include liability coverage for bodily injury and property damage. Settled claims have not exceeded commercial coverage in any of the past three years. There has been no significant reduction in coverage from the prior year.

B. Workers' Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (see Note 2.A.). The GRP's business and affairs are conducted by a three-member board of directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the plan. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the plan.

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 11 - RISK MANAGEMENT - (Continued)

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP. Each year, the District pays an enrollment fee to the GRP to cover the costs of administering the plan.

NOTE 12 - PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2007, 2006, and 2005 were \$146,749, \$142,677, and \$135,292; 41.97 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$85,153 represents the unpaid contribution for fiscal year 2007.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, or by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 12 - PENSION PLANS - (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for fund pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$642,710, \$629,611, and \$607,943; 81.84 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$116,703 represents the unpaid contribution for fiscal year 2007 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2007 were \$1,173 made by the District and \$4,389 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System of Ohio. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 13 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$49,439 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were \$282.743 million and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. Total surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, District paid \$72,457 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ (529,031)
Net adjustment for revenue accruals	(20,808)
Net adjustment for expenditure accruals	30,671
Net adjustment for other financing sources/uses	(26,991)
Encumbrances	531,752
GAAP basis	\$ (14,407)

NOTE 15 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 16 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2007, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Maintenance</u>	<u>School Bus Purchases</u>	<u>Budget Stabilization</u>
Set-aside balance at June 30, 2006 (restated)	\$ (199,213)	\$ (430,675)	\$ -	\$ 457,799
Current year set-aside requirement	198,350	198,350	13,207	50,000
Current year offsets	-	(871,110)	-	-
Current year qualifying expenditures	<u>(133,336)</u>	<u>(79,965)</u>	<u>(6,000)</u>	<u>-</u>
Total	<u>\$ (134,199)</u>	<u>\$ (1,183,400)</u>	<u>\$ 7,207</u>	<u>\$ 507,799</u>
Set-aside balance carried forward to FY2008	<u>\$ (134,199)</u>	<u>\$ (232,325)</u>	<u>\$ 7,207</u>	<u>\$ 507,799</u>

The District has restated the set-aside balance at June 30, 2006 for the instructional materials reserve. During the year, the District determined that it has not been including certain qualifying expenditures since the inception of the statutory reserves. Because the set-aside balance for the instructional materials reserve carries forward from year to year, the total of these qualifying expenditures has been included in the restated set-aside balance at June 30, 2006 presented above.

The District had qualifying expenditures during the year that reduced the set-aside amount below zero for the instructional materials reserve. This negative amount may be used to reduce the set-aside requirement for future years, and is therefore presented as being carried forward to the next fiscal year.

The District had qualifying expenditures and offsets during the year that reduced the set-aside amount below zero for the capital maintenance reserve. Because the District is involved in the Ohio School Facilities Commission project, a portion of this negative amount may be used to reduce the set-aside requirement for future years, and is therefore presented as being carried forward to the next fiscal year.

A schedule of the governmental fund restricted assets at June 30, 2007 follows:

Amount restricted for school bus purchases	<u>\$ 7,207</u>
Total restricted assets	<u>\$ 7,207</u>

**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 Local School District
1464 Industry Road
Atwater, OH 44201

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Waterloo Local School District (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinions on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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* (continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

We noted certain matters that we reported to management of the District in a separate letter dated February 15, 2008.

This report is intended solely for the information and use of management, the Board of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

February 15, 2008

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH *OMB CIRCULAR A-133***

Board of Education
Waterloo Local School District
1464 Industry Road
Atwater, OH 44201

Compliance

We have audited the compliance of the Waterloo Local School District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2007. The District's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133* (continued)

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

February 15, 2008

Waterloo Local School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2007

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Receipts	Disbursements
<u>U.S. Department of Agriculture</u>				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
National School Lunch Program	10.555	049247-LLP4-2006	\$26,605	\$26,605
National School Lunch Program	10.555	049247-LLP4-2007	72,170	72,170
Total National School Lunch Program			98,775	98,775
School Breakfast Program	10.553	049247-05PU-2006	2,570	2,570
School Breakfast Program	10.553	049247-05PU-2007	6,889	6,889
Total School Breakfast Program			9,459	9,459
Total Child Nutrition Cluster			108,234	108,234
Food Donation	10.550	- - -	54,261	54,261
Total U.S. Department of Agriculture			162,495	162,495
<u>U.S. Department of Education</u>				
<i>Passed Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	84.010	049247-C1S1-2006	56,947	57,949
Title I Grants to Local Educational Agencies	84.010	049247-C1S1-2007	136,436	136,396
Total Title I Grants to Local Educational Agencies			193,383	194,345
Special Education Cluster:				
Special Education-Grants to States	84.027	049247-6BSF-2006	61,409	63,263
Special Education-Grants to States	84.027	049247-6BSF-2007	336,696	336,696
Total Special Education - Grants to States			398,105	399,959
Special Education-Preschool Grants	84.173	049247-PGS1-2007	3,304	3,304
Total Special Education Cluster			401,409	403,263
Safe and Drug-Free Schools and Communities - State Grants	84.186	049247-DRS1-2006	5,686	5,686
Safe and Drug-Free Schools and Communities - State Grants	84.186	049247-DRS1-2007	5,304	5,304
Total Safe and Drug-Free Schools and Communities			10,990	10,990
State Grants for Innovative Programs	84.298	049247-C2S1-2006	75	75
State Grants for Innovative Programs	84.298	049247-C2S1-2007	2,116	1,903
Total State Grants for Innovative Programs			2,191	1,978
Education Technology State Grants	84.318	049247-TJS1-2007	1,641	1,641
Improving Teacher Quality State Grants	84.367	049247-TRS1-2006	1,447	1,535
Improving Teacher Quality State Grants	84.367	049247-TRS1-2007	59,033	58,560
Total Improving Teacher Quality State Grants			60,480	60,095
Total U.S. Department of Education			670,094	672,312
Total Federal Assistance			\$832,589	\$834,807

The accompanying notes to this Schedule are an integral part of this Schedule.

WATERLOO LOCAL SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased foods and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

WATERLOO LOCAL SCHOOL DISTRICT

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505**

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of auditor's report issued on the basic financial statements	Unqualified Opinion
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the basic financial statement level?	No
(d)(1)(ii)	Were there any other reportable conditions in internal control reported at the basic financial statement level?	No
(d)(1)(iii)	Was there any material noncompliance reported at the basic financial statement level?	No
(d)(1)(iv)	Were there any material weaknesses in internal control over major programs reported?	No
(d)(1)(iv)	Were there any other reportable conditions in internal control over major programs reported?	No
(d)(1)(v)	Type of auditor's report issued on compliance for major programs	Unqualified Opinion
(d)(1)(vi)	Were there any reportable audit findings under §510?	No

WATERLOO LOCAL SCHOOL DISTRICT

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(CONTINUED)**

(d)(1)(vii)	Major Program:	Special Education - Grants to States, CFDA #84.027 and Special Education-Preschool Grants, CFDA #84.173
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

None

3. FINDINGS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
Auditor of State

WATERLOO LOCAL SCHOOL DISTRICT

PORTAGE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 17, 2008**