



**Auditor of State
Betty Montgomery**

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Waterloo Local School District
Portage County
1464 Industry Road
Atwater, Ohio 44201

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Waterloo Local School District, Portage County, Ohio (the District), as of and for the year ended June 30, 2004 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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 Waterloo Local School District, Portage County, Ohio, as of June 30, 2004 and the respective changes in financial position thereof and the budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004 the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, and GASB Interpretation No.6. Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is 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. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

August 8, 2005

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The 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, 2004. 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. The District has implemented GASB Statement No. 34 for the fiscal year ended June 30, 2004. Since fiscal 2004 is the first year that the District is reporting in accordance with GASB Statement No. 34, comparative analysis with prior year data is not available. However, comparative analysis with prior year data will be provided in future years.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities decreased \$2,714,220 which represents a 15.54% decrease from 2003.
- General revenues accounted for \$10,276,674 in revenue or 88.53% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,332,048 or 11.47% of total revenues of \$11,608,722.
- The District had \$14,322,942 in expenses related to governmental activities; \$1,332,048 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$10,276,674 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 \$9,141,831 in revenues and other financing sources and \$9,445,426 in expenditures and other financing uses. During fiscal year 2004, the general fund's fund balance decreased \$304,323 from \$2,197,949 to \$1,893,626.
- The bond retirement fund had \$858,965 in revenues and \$847,568 in expenditures. During fiscal year 2004, the bond retirement fund's fund balance increased \$11,397 from \$510,144 to \$521,541.
- The classroom facilities fund had \$279,093 in revenues and other financing sources and \$14,150,249 in expenditures. During fiscal year 2004, the classroom facilities fund's fund balance decreased \$13,871,156 from \$16,010,325 to \$2,139,169.

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, 2004
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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 2004?" 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 and maintenance of plant, pupil transportation, extracurricular activities, and food service 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, 2004
UNAUDITED**

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 21-48 of this report.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the District's net assets for 2004.

	Net Assets
	Governmental Activities <u>2004</u>
<u>Assets</u>	
Current and other assets	\$ 11,311,193
Capital assets	<u>20,227,907</u>
Total assets	<u>31,539,100</u>
<u>Liabilities</u>	
Current liabilities	5,747,316
Long-term liabilities	<u>11,038,454</u>
Total liabilities	<u>16,785,770</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	10,064,299
Restricted	3,254,898
Unrestricted	<u>1,434,133</u>
Total net assets	<u>\$ 14,753,330</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$14,753,330. Of this total, \$1,434,133 is unrestricted in use.

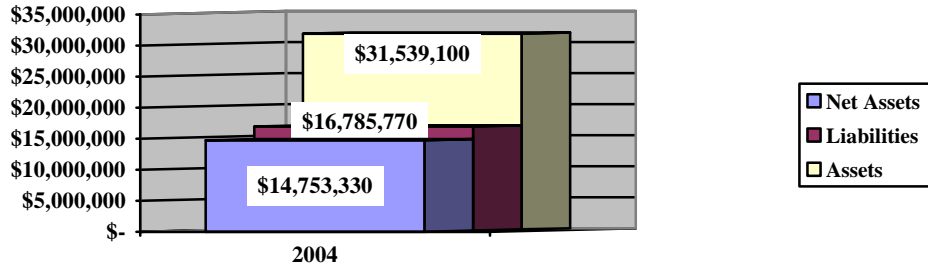
At year-end, capital assets represented 64.14% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$10,064,299. These capital assets are used 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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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A portion of the District's net assets, \$3,254,898, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,434,133 may be used to meet the District's ongoing obligations to the students and creditors.

Governmental Activities



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	Governmental Activities <u>2004</u>
<u>Revenues</u>	
Program revenues:	
Charges for services and sales	\$ 499,824
Operating grants and contributions	780,196
Capital grants and contributions	52,028
General revenues:	
Property taxes	4,047,436
Grants and entitlements	6,019,714
Investment earnings	136,403
Other	<u>73,121</u>
Total revenues	<u>11,608,722</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Change in Net Assets

	Governmental Activities <u>2004</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	\$ 6,194,970
Special	1,150,726
Vocational	150,992
Support services:	
Pupil	611,319
Instructional staff	560,392
Board of education	31,731
Administration	1,248,412
Fiscal	333,158
Business	44,886
Operations and maintenance	1,287,395
Pupil transportation	1,164,008
Central	25,618
Food service operations	444,104
Operations of non-instructional services	2,818
Extracurricular activities	404,086
Intergovernmental	112,424
Interest and fiscal charges	<u>555,903</u>
Total expenses	<u>14,322,942</u>
Change in net assets	(2,714,220)
Net assets at beginning of year	<u>17,467,550</u>
Net assets at end of year	<u>\$ 14,753,330</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$2,714,220. Total governmental expenses of \$14,322,942 were offset by program revenues of \$1,332,048 and general revenues of \$10,276,674. Program revenues supported 9.30% 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 86.72% of total governmental revenue.

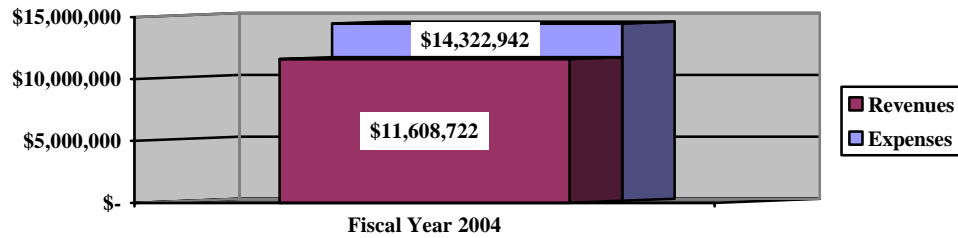
The largest expense of the District is for instructional programs. Instruction expenses totaled \$7,496,688 or 52.34% of total governmental expenses for fiscal 2004.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The graph below presents the District's governmental activities revenue and expenses for fiscal year 2004.

Governmental Activities - Revenues and Expenses



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. Comparisons to 2003 have not been presented since they are not available.

Governmental Activities

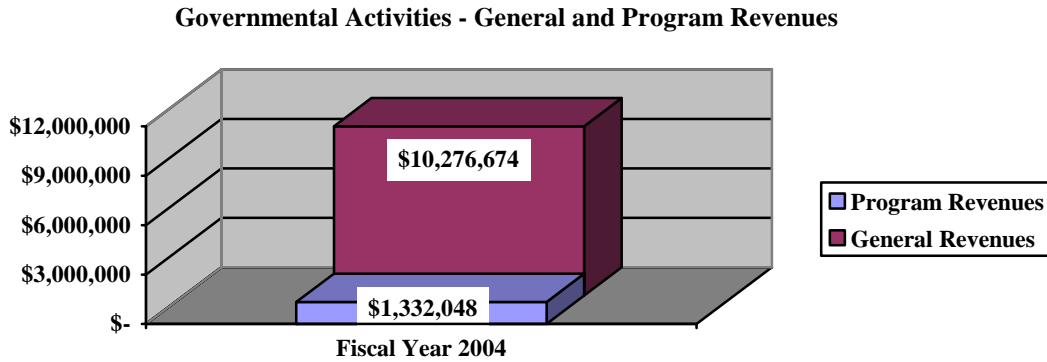
	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses		
Instruction:		
Regular	\$ 6,194,970	\$ 5,973,024
Special	1,150,726	861,014
Vocational	150,992	141,881
Support services:		
Pupil	611,319	539,966
Instructional staff	560,392	519,228
Board of education	31,731	27,753
Administration	1,248,412	1,205,215
Fiscal	333,158	327,174
Business	44,886	44,886
Operations and maintenance	1,287,395	1,285,270
Pupil transportation	1,164,008	1,159,481
Central	25,618	20,618
Food service operations	444,104	97,834
Operations of non-instructional services	2,818	(1,390)
Extracurricular activities	404,086	232,677
Intergovernmental	112,424	360
Interest and fiscal charges	555,903	555,903
Total expenses	\$ 14,322,942	\$ 12,990,894

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The dependence upon tax and other general revenues for governmental activities is apparent, 93.05% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 90.70%. 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 2004.



The District's Funds

The District's governmental funds reported a combined fund balance of \$5,125,999, which is lower than last year's total of \$19,318,947. The June 30, 2003 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance <u>June 30, 2004</u>	Fund Balance <u>June 30, 2003</u>	Increase (Decrease)	Percentage Change
General	\$ 1,893,626	\$ 2,197,949	\$ (304,323)	(13.85) %
Bond Retirement	521,541	510,144	11,397	2.23 %
Classroom Facilities	2,139,169	16,010,325	(13,871,156)	(86.64) %
Other Governmental	<u>571,663</u>	<u>600,529</u>	<u>(28,866)</u>	(4.81) %
Total	<u>\$ 5,125,999</u>	<u>\$ 19,318,947</u>	<u>\$(14,192,948)</u>	(73.47) %

General Fund

The District's general fund balance decreased \$304,323 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statements). The decrease in fund balance can be attributed to several items related to flat revenue growth and increased expenditures. Expenditures exceed revenues for fiscal year 2004 by \$340,993. On March 3, 2004 the Governor of the State of Ohio issued an executive order to reduce funding to school districts to help offset the state's fiscal year deficit. 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, 2004
UNAUDITED

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 2,977,412	\$ 2,882,307	\$ 95,105	3.30 %
Tuition	89,681	13,435	76,246	567.52 %
Earnings on investments	47,043	61,028	(13,985)	(22.92) %
Intergovernmental	5,929,243	5,992,508	(63,265)	(1.06) %
Other revenues	<u>56,466</u>	<u>122,405</u>	<u>(65,939)</u>	<u>(53.87) %</u>
Total	<u>\$ 9,099,845</u>	<u>\$ 9,071,683</u>	<u>\$ 28,162</u>	<u>0.31 %</u>
<u>Expenditures</u>				
Instruction	\$ 5,129,507	\$ 4,738,798	\$ 390,709	8.24 %
Support services	4,102,978	3,766,744	336,234	8.93 %
Non-instructional services	166	-	166	100.00 %
Extracurricular activities	180,683	154,698	25,985	16.80 %
Facilities acquisition and construction	8,304	-	8,304	100.00 %
Debt service	<u>19,200</u>	<u>30,303</u>	<u>(11,103)</u>	<u>(36.64) %</u>
Total	<u>\$ 9,440,838</u>	<u>\$ 8,690,543</u>	<u>\$ 750,295</u>	<u>8.63 %</u>

Bond Retirement Fund

The bond retirement fund had \$858,965 in revenues and \$847,568 in expenditures. During fiscal year 2004, the bond retirement fund's fund balance increased \$11,397 from \$510,144 to \$521,541.

Classroom Facilities Fund

The classroom facilities fund had \$279,093 in revenues and other financing sources and \$14,150,249 in expenditures. During fiscal year 2004, the classroom facilities fund's fund balance decreased \$13,871,156 from \$16,010,325 to \$2,139,169.

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 2004, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$9,285,238 and final budgeted revenues and other financing sources were \$9,838,670. Actual revenues and other financing sources for fiscal 2004 was \$9,246,922. This represents a \$591,748 decrease from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$9,990,848 were decreased to \$9,931,708 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$9,931,708, which equals the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$20,227,907 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 2004 balances compared to 2003:

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

	Governmental Activities	
	2004	2003
Land	\$ 299,298	\$ 299,298
Land improvements	748,003	758,165
Building and improvements	17,810,008	31,796
Furniture and equipment	967,972	1,009,768
Vehicles	402,626	478,806
Construction in progress	-	6,352,816
	\$ 20,227,907	\$ 8,930,649

The overall increase in capital assets of \$11,297,258 is due to capital outlays of \$12,058,923 exceeding depreciation expense of \$761,665 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, 2004, the District had \$10,247,314 in general obligation bonds and \$20,471 in energy conservation notes outstanding. Of this total, \$340,471 is due within one year and \$9,927,314 is due within greater than one year. The following table summarizes the bonds and notes outstanding.

Outstanding Debt, at Fiscal Year End

	Governmental	Governmental
	Activities	Activities
	2004	2003
General obligation bonds	\$ 10,247,314	\$ 10,507,535
Energy conservation notes	20,471	39,938
	\$ 10,267,785	\$ 10,547,473

At June 30, 2004, the District's overall legal debt margin was \$3,548,002, and an unvoted debt margin of \$147,486.

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, 2004
UNAUDITED**

Current Financial Related Activities

Currently, the District's Five Year Forecast shows a positive fund balance through fiscal year 2007. This is a result of the Board of Education and Administration taking pro-active steps, since earlier projections showed a deficit in fiscal year 2006. 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 2006 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.

On a positive note, the District has just completed a new K-12 campus project through the Ohio School Facilities Commission (OSFC). Our new facilities are equipped with state of the art systems, which should allow for more monies to be focused on the educational needs of the District.

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.

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

STATEMENT OF NET ASSETS
JUNE 30, 2004

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 6,338,866
Cash with escrow agent	368,404
Cash with fiscal agent	5,925
Receivables:	
Taxes	4,177,771
Accounts	3,584
Intergovernmental	385,608
Accrued interest	3,152
Materials and supplies inventory	27,883
Capital assets:	
Land	299,298
Depreciable capital assets, net	19,928,609
Capital assets, net.	<u>20,227,907</u>
 Total assets.	 <u>31,539,100</u>
 Liabilities:	
Accounts payable.	130,148
Contracts payable.	122,895
Retainage payable	368,404
Accrued wages and benefits	928,071
Pension obligation payable.	234,740
Intergovernmental payable	34,433
Deferred revenue	3,883,117
Matured interest payable.	5,925
Accrued interest payable	39,583
Long-term liabilities:	
Due within one year.	505,796
Due within more than one year	10,532,658
 Total liabilities	 <u>16,785,770</u>
 Net Assets:	
Invested in capital assets, net of related debt.	10,064,299
Restricted for:	
Capital projects	2,523,106
Debt service.	547,670
Other purposes	184,122
Unrestricted.	<u>1,434,133</u>
 Total net assets	 <u>\$ 14,753,330</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, 2004

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
Instruction:				
Regular	\$ 6,194,970	\$ 121,520	\$ 100,426	\$ -
Special	1,150,726	-	289,712	-
Vocational	150,992	-	-	9,111
Support services:				
Pupil.	611,319	-	71,353	-
Instructional staff	560,392	-	4,614	36,550
Board of education	31,731	-	3,978	-
Administration.	1,248,412	-	43,197	-
Fiscal.	333,158	-	5,984	-
Business.	44,886	-	-	-
Operations and maintenance	1,287,395	-	106	2,019
Pupil transportation.	1,164,008	-	179	4,348
Central	25,618	-	5,000	-
Operation of non-instructional services:				
Food service operations	444,104	206,895	139,375	-
Other non-instructional services	2,818	-	4,208	-
Extracurricular activities.	404,086	171,409	-	-
Intergovernmental pass-through.	112,424	-	112,064	-
Interest and fiscal charges	555,903	-	-	-
Total governmental activities	<u>\$ 14,322,942</u>	<u>\$ 499,824</u>	<u>\$ 780,196</u>	<u>\$ 52,028</u>

General Revenues:

Property taxes levied for:	
General purposes	
Special revenue	
Debt service.	
Capital projects	
Grants and entitlements not restricted to specific programs.	
Investment earnings	
Miscellaneous	
Total general revenues.	
Change in net assets	
Net assets at beginning of year (restated) .	
Net assets at end of year	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense)
Revenue and
Changes in
Net Assets**

**Governmental
Activities**

\$ (5,973,024)
(861,014)
(141,881)

(539,966)
(519,228)
(27,753)
(1,205,215)
(327,174)
(44,886)
(1,285,270)
(1,159,481)
(20,618)

(97,834)
1,390
(232,677)
(360)
(555,903)

(12,990,894)

2,971,189
234,520
763,450
78,277

6,019,714
136,403
73,121

10,276,674

(2,714,220)

17,467,550

\$ 14,753,330

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents	\$ 2,797,439	\$ 494,182	\$ 2,262,064	\$ 764,321
Cash with escrow agent	-	-	368,404	-
Cash with fiscal agent	-	5,925	-	-
Receivables:				
Taxes	3,149,031	786,056	-	242,684
Accounts	3,313	-	-	271
Intergovernmental	50	-	283,837	101,721
Accrued interest	2,953	-	-	199
Interfund receivable	106,481	-	-	-
Materials and supplies inventory	15,030	-	-	12,853
Restricted assets:				
Equity in pooled cash and cash equivalents	20,860	-	-	-
Total assets	\$ 6,095,157	\$ 1,286,163	\$ 2,914,305	\$ 1,122,049
Liabilities:				
Accounts payable	\$ 37,155	\$ -	\$ -	\$ 92,993
Contracts payable	-	-	122,895	-
Retainage payable	-	-	368,404	-
Accrued wages and benefits	853,700	-	-	74,371
Compensated absences payable	95,174	-	-	-
Matured interest payable	-	5,925	-	-
Pension obligation payable	135,274	-	-	10,462
Intergovernmental payable	29,843	-	-	4,590
Interfund payable	-	-	-	106,481
Deferred revenue	3,050,385	758,697	283,837	261,489
Total liabilities	4,201,531	764,622	775,136	550,386
Fund Balances:				
Reserved for encumbrances	492,377	-	712,112	106,817
Reserved for materials and supplies inventory	15,030	-	-	12,853
Reserved for property tax unavailable for appropriation	98,646	27,359	-	8,637
Reserved for debt service	-	494,182	-	-
Reserved for school bus purchases	20,860	-	-	-
Unreserved, undesignated, reported in:				
General fund	1,266,713	-	-	-
Special revenue funds	-	-	-	358,236
Capital projects funds	-	-	1,427,057	85,120
Total fund balances	1,893,626	521,541	2,139,169	571,663
Total liabilities and fund balances	\$ 6,095,157	\$ 1,286,163	\$ 2,914,305	\$ 1,122,049

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Total
Governmental
Funds**

\$ 6,318,006
368,404
5,925

4,177,771
3,584
385,608
3,152
106,481
27,883

20,860
\$ 11,417,674

\$ 130,148
122,895
368,404
928,071
95,174
5,925
145,736
34,433
106,481
4,354,408
6,291,675

1,311,306

27,883

134,642
494,182
20,860

1,266,713
358,236
1,512,177
5,125,999

\$ 11,417,674

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances		\$ 5,125,999
<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.		20,227,907
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 160,012	
Intergovernmental revenue	<u>311,279</u>	
Total		471,291
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	644,009	
Capital lease obligation	31,486	
Pension obligation payable	89,004	
Energy conservation notes	20,471	
General obligation bonds payable	10,247,314	
Accrued interest payable	<u>39,583</u>	
Total		<u>(11,071,867)</u>
Net assets of governmental activities		<u><u>\$ 14,753,330</u></u>

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, 2004

	<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	\$ 2,977,412	\$ 768,494	\$ -	\$ 321,930	\$ 4,067,836
Tuition	89,681	-	-	-	89,681
Earnings on investments.	47,043	-	86,870	2,490	136,403
Charges for services.	-	-	-	206,895	206,895
Extracurricular.	-	-	-	171,409	171,409
Classroom materials and fees.	31,839	-	-	-	31,839
Other local revenues.	24,627	-	-	6,508	31,135
Intergovernmental - State.	5,929,243	90,471	187,635	238,047	6,445,396
Intergovernmental - Federal	-	-	-	566,735	566,735
Total revenue	<u>9,099,845</u>	<u>858,965</u>	<u>274,505</u>	<u>1,514,014</u>	<u>11,747,329</u>
Expenditures:					
Current:					
Instruction:					
Regular	4,298,638	-	640,438	281,363	5,220,439
Special.	700,893	-	-	277,957	978,850
Vocational.	129,976	-	-	-	129,976
Support services:					
Pupil	452,762	-	-	64,989	517,751
Instructional staff	466,770	-	-	3,639	470,409
Board of education	26,027	-	-	1,452	27,479
Administration.	937,388	1,861	-	85,854	1,025,103
Fiscal	264,732	11,954	-	5,302	281,988
Business	38,170	-	-	-	38,170
Operations and maintenance.	1,016,369	-	3,921	24,022	1,044,312
Pupil transportation	889,074	-	-	51,568	940,642
Central.	11,686	-	5,500	5,000	22,186
Operation of non-instructional services:					
Food service operations	-	-	-	350,912	350,912
Other non-instructional services.	166	-	-	2,274	2,440
Extracurricular activities.	180,683	-	-	122,211	302,894
Intergovernmental pass-through	-	-	-	112,557	112,557
Facilities acquisition and construction	8,304	-	13,500,390	166,633	13,675,327
Debt service:					
Principal retirement	16,298	329,467	-	-	345,765
Interest and fiscal charges	2,902	504,286	-	-	507,188
Total expenditures	<u>9,440,838</u>	<u>847,568</u>	<u>14,150,249</u>	<u>1,555,733</u>	<u>25,994,388</u>
Excess of revenues over (under) expenditures	<u>(340,993)</u>	<u>11,397</u>	<u>(13,875,744)</u>	<u>(41,719)</u>	<u>(14,247,059)</u>
Other financing sources (uses):					
Transfers in	-	-	4,588	-	4,588
Transfers (out).	(4,588)	-	-	-	(4,588)
Proceeds from sale of capital assets.	41,986	-	-	-	41,986
Total other financing sources (uses)	<u>37,398</u>	<u>-</u>	<u>4,588</u>	<u>-</u>	<u>41,986</u>
Net change in fund balances	(303,595)	11,397	(13,871,156)	(41,719)	(14,205,073)
Fund balances at beginning of year (restated)	2,197,949	510,144	16,010,325	600,529	19,318,947
Increase (decrease) in reserve for inventory.	(728)	-	-	12,853	12,125
Fund balances at end of year.	<u>\$ 1,893,626</u>	<u>\$ 521,541</u>	<u>\$ 2,139,169</u>	<u>\$ 571,663</u>	<u>\$ 5,125,999</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, 2004

Net change in fund balances - total governmental funds	\$	(14,205,073)
 <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. This is the amount by which capital outlays (\$12,058,923) exceeds depreciation expense (\$761,665) in the current period.		11,297,258
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		12,125
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(180,593)
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.		345,765
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 additional interest reported in the statement of activities is due to the accrued interest on bonds and additional accumulated accreted interest on the capital appreciation bonds.		(48,715)
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		65,013
		65,013
Change in net assets of governmental activities	\$	(2,714,220)

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, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
Revenues:				
From local sources:				
Taxes	\$ 2,979,204	\$ 3,156,775	\$ 2,966,911	\$ (189,864)
Tuition.	90,053	95,420	89,681	(5,739)
Earnings on investments.	48,206	51,079	48,007	(3,072)
Classroom materials and fees	31,748	33,640	31,617	(2,023)
Other local revenues	9,766	10,348	9,726	(622)
Intergovernmental - State	5,953,812	6,308,680	5,929,243	(379,437)
Total revenue	<u>9,112,789</u>	<u>9,655,942</u>	<u>9,075,185</u>	<u>(580,757)</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,320,185	4,294,611	4,294,611	-
Special.	861,588	856,488	856,488	-
Vocational.	129,937	129,168	129,168	-
Support services:				
Pupil.	468,116	465,345	465,345	-
Instructional staff	489,879	486,979	486,979	-
Board of education	27,347	27,185	27,185	-
Administration.	957,598	951,930	951,930	-
Fiscal	270,757	269,154	269,154	-
Business	59,321	58,970	58,970	-
Operations and maintenance.	1,123,008	1,116,360	1,116,360	-
Pupil transportation	969,587	963,848	963,848	-
Central.	11,256	11,189	11,189	-
Extracurricular activities.	182,186	181,108	181,108	-
Facilities acquisition and construction.	8,353	8,304	8,304	-
Total expenditures	<u>9,879,118</u>	<u>9,820,639</u>	<u>9,820,639</u>	<u>-</u>
Excess of revenues under expenditures.	<u>(766,329)</u>	<u>(164,697)</u>	<u>(745,454)</u>	<u>(580,757)</u>
Other financing sources (uses):				
Refund of prior year expenditure.	12,329	13,064	12,278	(786)
Transfers (out)	(4,615)	(4,588)	(4,588)	-
Advances in.	117,960	124,991	117,473	(7,518)
Advances (out)	(107,115)	(106,481)	(106,481)	-
Proceeds from sale of capital assets.	42,160	44,673	41,986	(2,687)
Total other financing sources (uses)	<u>60,719</u>	<u>71,659</u>	<u>60,668</u>	<u>(10,991)</u>
Net change in fund balance	(705,610)	(93,038)	(684,786)	(591,748)
Fund balance at beginning of year.	2,584,683	2,584,683	2,584,683	-
Prior year encumbrances appropriated	389,506	389,506	389,506	-
Fund balance at end of year	<u>\$ 2,268,579</u>	<u>\$ 2,881,151</u>	<u>\$ 2,289,403</u>	<u>\$ (591,748)</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, 2004

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 25,042
Total assets.	<u>\$ 25,042</u>
Liabilities:	
Due to students	\$ 25,042
Total liabilities	<u>\$ 25,042</u>

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, 2004**

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 396th largest by total enrollment among the 613 public school districts in the state. The District's enrollment as of June 30, 2004, was 1,401. The District employed 103 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". The reporting entity is composed 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 service, 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 government 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; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or 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 this 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, 2004

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

JOINTLY GOVERNED ORGANIZATIONS

Stark Portage Area Computer Consortium (SPARCC)

SPARCC is a joint venture among 31 school districts. The joint venture 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 twelve months financial contribution. SPARCC is governed by a Board of Directors consisting of superintendents of the members 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 as 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 Clifford Pockock, 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 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.

The Ohio Revised Code, Section 167.04, requires the Consortium to adopt bylaws designating the officers of the Consortium and the method of selection, therefore creating a governing body to act for the Consortium, appointing a fiscal officer and providing for the conduct of the Consortium's business. The assembly is the representation of the member schools. The member school's governing body appoints one representation to the Consortium (usually the superintendent or designee). In the case of a member that is a board of education, that representative shall be an executive appointed by the member's governing body. The assembly serves without compensation.

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, 2004

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; and (b) for grants and other resources whose use is restricted to a particular purpose.

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, 2004

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, 2004

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.

Deferred Revenue - Deferred revenue arises 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, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also 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, except for agency funds. The specific timetable for fiscal year 2004 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, 2004**

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 final Amended Certificate issued for fiscal year 2004.
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, 2004, however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the 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 2004, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

**WATERLOO LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

The District has invested funds in STAR Ohio during fiscal 2004. 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, 2004.

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 2004 amounted to \$47,043, which includes \$18,363 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 Treasurer'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 consumption 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 2004, the District increased its capitalization threshold from \$1,000 to \$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 and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

<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	6 - 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, 2004, 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, 2004, 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.

K. Accrued Liabilities and Long-Term Obligations

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

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, compensated absences, and contractually required pension contributions 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.

L. Fund Balance Reserves

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 revenue unavailable for appropriation, debt service and school bus purchases. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

M. 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 adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. 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.

O. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a textbook reserve and capital acquisition reserve. These reserves are required by state statute. A schedule of statutory reserves is presented in Note 16.

P. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

Q. 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. Neither type of transaction occurred during fiscal year 2004.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2004, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38, 39 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures. GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity."

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2003.

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

	<u>General</u>	Bond <u>Retirement</u>	Classroom <u>Facilities</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance June 30, 2003	\$ 2,191,619	\$ 510,144	\$ 16,010,325	\$ 429,027	\$ 19,141,115
Fund reclassifications	-	-	-	171,502	171,502
Implementation of GASB Interpretation No. 6	<u>6,330</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,330</u>
Restated fund balance, June 30, 2003	<u>\$ 2,197,949</u>	<u>\$ 510,144</u>	<u>\$ 16,010,325</u>	<u>\$ 600,529</u>	<u>\$ 19,318,947</u>

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Restated fund balance, June 30, 2003	\$ 19,318,947
GASB 34 adjustments:	
Long-term (deferred) assets	651,884
Capital assets	8,930,649
Accrued interest payable	(40,647)
Pension obligation	(91,521)
Long-term liabilities	<u>(11,301,762)</u>
Governmental activities net assets, June 30, 2003	<u>\$ 17,467,550</u>

B. Deficit Fund Balances

Fund balances at June 30, 2004 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Auxiliary Services	\$ 4,507
Ohio Reads	12
IDEA Part B Grants	3,749
Title I	7,650
Improving Teacher Quality	732

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. The deficit fund balances are a result of adjustments for accrued liabilities.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the District into three categories.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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 the Board of Education has identified as not required for use within the current two-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 monies 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 accounts, including passbook accounts.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the finance 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.

Interim monies may 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 or 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 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
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);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not the exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand: At fiscal 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".

Cash with Fiscal Agent: The District is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2004, was \$374,329.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At year-end, the carrying amount of the District's deposits was \$1,639,309 and the bank balance was \$2,299,889. Of the bank balance:

1. \$200,000 was covered by federal depository insurance deposited with the District; and
2. \$2,099,889 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

	Reported Amount	Fair Value
Investment in STAR Ohio	\$ 4,722,449	\$ 4,722,449
Total investments	\$ 4,722,449	\$ 4,722,449

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$ 6,738,237	\$ -
Investments of the cash management pool:		
Investment in STAR Ohio	(4,722,449)	4,722,449
Cash with escrow agent	(368,404)	-
Cash with fiscal agent	(5,925)	-
Cash on hand	(2,150)	-
GASB Statement No. 3	\$ 1,639,309	\$ 4,722,449

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2004 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental funds	\$ 106,481

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, 2004 are reported on the Statement of Net Assets.

- B. Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:	
General Fund	\$ 4,588

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, 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 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 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 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. 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.

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, 2004, are available to finance fiscal year 2004 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, 2004 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 deferred revenue.

The amounts available as an advance at June 30, 2004 were \$98,646 in the general fund, \$27,359 in the bond retirement debt service fund, \$6,572 in the emergency levy special revenue fund, and \$2,065 in the classroom facilities maintenance special revenue fund. These amounts have been recorded as revenue. The amounts available as an advance at June 30, 2003 were \$88,144 in the general fund, \$23,443 in the bond retirement debt service fund, \$5,229 in the permanent improvement capital projects fund, \$5,580 in the emergency levy special revenue fund, and \$1,797 in the classroom facilities maintenance special revenue fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 6 - PROPERTY TAXES - (Continued)

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 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 112,230,950	86.80	\$ 132,117,240	89.58
Public utility personal	5,896,060	4.57	6,122,270	4.16
Tangible personal property	<u>11,124,584</u>	<u>8.63</u>	<u>9,246,874</u>	<u>6.26</u>
Total	<u>\$ 129,251,594</u>	<u>100.00</u>	<u>\$ 147,486,384</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 60.71		\$ 60.07	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004 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:

Governmental Activities:

Taxes	\$ 4,177,771
Accounts	3,584
Intergovernmental	385,608
Accrued interest	<u>3,152</u>
Total	<u>\$ 4,570,115</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to changes in the District's capital asset policy and to include land values not reported in the prior year. See Note 2.H. for detail:

	<u>Balance</u> <u>6/30/03</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>6/30/03</u>
Governmental Activities			
Capital assets, not being depreciated:			
Land	\$ -	\$ 299,298	\$ 299,298
Construction in progress	<u>6,352,816</u>	<u>-</u>	<u>6,352,816</u>
Total capital assets, not being depreciated	<u>6,352,816</u>	<u>299,298</u>	<u>6,652,114</u>
Capital assets, being depreciated:			
Land improvements	2,626,717	(1,782,615)	844,102
Buildings and improvements	3,538,613	(1,546,038)	1,992,575
Furniture and equipment	1,446,470	(84,336)	1,362,134
Vehicles	<u>1,376,999</u>	<u>(264,333)</u>	<u>1,112,666</u>
Total capital assets, being depreciated	<u>8,988,799</u>	<u>(3,677,322)</u>	<u>5,311,477</u>
<i>Less: accumulated depreciation:</i>	<u>-</u>	<u>(3,032,942)</u>	<u>(3,032,942)</u>
Governmental activities capital assets, net	<u>\$ 15,341,615</u>	<u>\$ (6,410,966)</u>	<u>\$ 8,930,649</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 8 - CAPITAL ASSETS - (Continued)

B. Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Restated Balance <u>06/30/03</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/04</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 299,298	\$ -	\$ -	\$ 299,298
Construction in progress	<u>6,352,816</u>	<u>11,918,633</u>	<u>(18,271,449)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>6,652,114</u>	<u>11,918,633</u>	<u>(18,271,449)</u>	<u>299,298</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	844,102	38,130	-	882,232
Buildings and improvements	1,992,575	18,284,509	-	20,277,084
Furniture and equipment	1,362,134	89,100	-	1,451,234
Vehicles	<u>1,112,666</u>	<u>-</u>	<u>-</u>	<u>1,112,666</u>
Total capital assets, being depreciated	<u>5,311,477</u>	<u>18,411,739</u>	<u>-</u>	<u>23,723,216</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(85,937)	(48,292)	-	(134,229)
Buildings and improvements	(1,960,779)	(506,297)	-	(2,467,076)
Furniture and equipment	(352,366)	(130,896)	-	(483,262)
Vehicles	<u>(633,860)</u>	<u>(76,180)</u>	<u>-</u>	<u>(710,040)</u>
Total accumulated depreciation	<u>(3,032,942)</u>	<u>(761,665)</u>	<u>-</u>	<u>(3,794,607)</u>
Governmental activities capital assets, net	<u>\$ 8,930,649</u>	<u>\$29,568,707</u>	<u>\$ (18,271,449)</u>	<u>\$ 20,227,907</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 343,073
Special	14,835
<u>Support Services:</u>	
Pupil	9,569
Instructional staff	42,711
Administration	89,433
Fiscal	6,892
Business	810
Operations and maintenance	74,416
Pupil transportation	76,180
Extracurricular activities	54,326
Food service operations	<u>49,420</u>
Total depreciation expense	<u>\$ 761,665</u>

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

In prior fiscal years, the District entered into capital lease agreements for copiers. These lease agreements met 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 \$89,770. 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. Principal payments in fiscal year 2004 totaled \$16,298 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, 2004:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2005	\$ 19,200
2006	<u>14,400</u>
Total minimum lease payments	33,600
Less amount representing interest	<u>(2,114)</u>
Total	<u>\$ 31,486</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 10 - LONG-TERM OBLIGATIONS

- A. 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, 2004, the total estimated cost of the Construction Project is \$25,522,356, of which OSFC will pay \$15,087,193.

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 5.875%. 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.

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, 2024.

The following is a schedule of activity for fiscal 2004 on the 2003 series general obligation bonds:

	Balance Outstanding <u>06/30/03</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/04</u>	Amounts Due in <u>One Year</u>
General obligation bonds:					
Current interest bonds	\$ 10,045,000	\$ -	\$ (310,000)	\$ 9,735,000	\$ 320,000
Capital appreciation bonds	<u>462,535</u>	<u>49,779</u>	<u>-</u>	<u>512,314</u>	<u>-</u>
Total G.O. bonds	<u>\$ 10,507,535</u>	<u>\$ 49,779</u>	<u>\$ (310,000)</u>	<u>\$ 10,247,314</u>	<u>\$ 320,000</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

The following is a summary of the future debt service requirements to maturity for the 2004 series general obligation bonds:

Fiscal Year Ending June 30	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 320,000	\$ 490,132	\$ 810,132	\$ -	\$ -	\$ -
2006	335,000	477,032	812,032	-	-	-
2007	-	470,332	470,332	350,000	-	350,000
2008	-	470,333	470,333	345,000	-	345,000
2009	320,000	463,453	783,453	-	-	-
2010 - 2014	2,115,000	2,057,212	4,172,212	-	-	-
2015 - 2019	2,600,000	1,399,390	3,999,390	-	-	-
2020 - 2024	3,290,000	629,865	3,919,865	-	-	-
2025	755,000	19,348	774,348	-	-	-
Total	<u>\$ 9,735,000</u>	<u>\$ 6,477,097</u>	<u>\$ 16,212,097</u>	<u>\$ 695,000</u>	<u>\$ -</u>	<u>\$ 695,000</u>

- B.** The District's long-term obligations outstanding at June 30, 2004 also include energy conservation notes. The energy conservation notes were issued in 1994 pursuant to Section 3313.372 of the Ohio Revised Code in anticipation of energy cost savings to be realized from energy conservation projects under House Bill 264.

Payments of principal and interest relating to these liabilities are recorded as expenditures in the debt service fund.

The following is a description of the District's energy conservation notes outstanding as of June 30, 2004:

	Interest Rate	Maturity Date	Balance Outstanding 06/30/03	Reductions	Balance Outstanding 06/30/04	Amounts Due in One Year
Energy conservation notes	5.15%	12/04	<u>\$ 39,938</u>	<u>\$ (19,467)</u>	<u>\$ 20,471</u>	<u>\$ 20,471</u>

The following is a description of the District's future annual requirements to amortize the energy conservation notes outstanding:

Fiscal Year Ending June 30	Principal on Energy Notes	Interest on Energy Notes	Total
2005	<u>\$ 20,471</u>	<u>\$ 527</u>	<u>\$ 20,998</u>
Total	<u>\$ 20,471</u>	<u>\$ 527</u>	<u>\$ 20,998</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

- C. The long-term obligations balance has been restated as of June 30, 2003. The balance of compensated absences at June 30, 2003 has been restated for the implementation of GASB Interpretation No. 6, from \$689,365 to \$711,768. The balance of pension obligations at June 30, 2003, \$83,100, has been removed from long-term obligations in accordance with GASB Statement No. 34. Compensated absences will be paid from the fund in which the employee is paid. During the year ended June 30, 2004, the following changes occurred in the liabilities reported in long-term obligations.

	Restated Balance Outstanding <u>06/30/03</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/04</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
Compensated absences	\$ 711,768	\$ 81,237	\$ (53,822)	\$ 739,183	\$ 147,817
General obligation current interest bonds	10,045,000	-	(310,000)	9,735,000	320,000
General obligation capital appreciation bonds	462,535	49,779	-	512,314	-
Energy conservation notes	39,938	-	(19,467)	20,471	20,471
Capital lease obligation	<u>47,784</u>	<u>-</u>	<u>(16,298)</u>	<u>31,486</u>	<u>17,508</u>
Total long-term obligations, governmental activities	<u>\$ 11,307,025</u>	<u>\$ 131,016</u>	<u>\$ (399,587)</u>	<u>\$ 11,038,454</u>	<u>\$ 505,796</u>

D. Legal Debt Margin

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 effects of these debt limitations at June 30, 2004 are a voted debt margin of \$3,548,002 and an unvoted debt margin of \$147,486.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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.

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.

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 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (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 State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% 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 a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$181,298, \$174,846, and \$166,861, respectively; 42.62% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$104,028 represents the unpaid contribution for fiscal year 2004.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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% 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. 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 years 2004 and 2003, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$645,077, \$611,234, and \$573,613, respectively; 82.78% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$111,060 represents the unpaid contribution for fiscal year 2004. Contributions to the DC and Combined Plans for fiscal 2004 were \$62 made by the District and \$60 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.20 percent of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$46,077 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$88,729 during the 2004 fiscal year.

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).

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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	\$ (684,786)
Net adjustment for revenue accruals	24,660
Net adjustment for expenditure accruals	(149,095)
Net adjustment for other sources/uses	(23,270)
Adjustment for encumbrances	<u>528,896</u>
GAAP basis	<u>\$ (303,595)</u>

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.

C. State School Funding Decision

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.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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, 2004, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Bus Purchases</u>
Set-aside cash balance as of June 30, 2003	\$ (155,761)	\$ -	\$ 45,610
Current year set-aside requirement	199,395	199,395	20,860
Current year offsets	-	(1,007,382)	-
Qualifying disbursements	<u>(167,398)</u>	<u>(5,934)</u>	<u>(45,610)</u>
Total	<u>\$ (123,764)</u>	<u>\$ (813,921)</u>	<u>\$ 20,860</u>
Cash balance carried forward to FY 2005	<u>\$ (123,764)</u>	<u>\$ (813,921)</u>	<u>\$ 20,860</u>

A schedule of the restricted assets at June 30, 2004 follows:

Amounts restricted for bus purchases	<u>\$ 20,860</u>
Total restricted assets	<u>\$ 20,860</u>

The District had qualifying disbursements and offsets during the year that reduced the set-aside amount below zero for the textbooks 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 disbursements and offsets during the year that reduced the set-aside amount below zero for the capital acquisition reserve. Because the District is involved in the Ohio School Facilities Commission project, 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 monies restricted for school bus purchases as of June 30, 2004.

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Federal Grantor/Pass-Through Grantor/Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
<i>Child Nutrition Cluster :</i>						
Food Distribution	None	10.550		\$39,121		\$39,121
National School Breakfast Program	049247-05-PU 2004	10.553	\$6,515		\$6,515	
National School Lunch Program	049247-LL-P1 2004	10.555	88,030		88,030	
Total U.S.Department of Agriculture-Nutrition Cluster			<u>94,545</u>	<u>39,121</u>	<u>94,545</u>	<u>39,121</u>
U.S. DEPARTMENT OF EDUCATION						
<i>Passed through the Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	049247-C1S1-2003	84.010	36,977		55,903	
Title I Grants to Local Educational Agencies	049247-C1S1-2004	84.010	149,273		116,894	
Total Title 1 Grants to Local Educational Agencies			<u>186,250</u>	<u>0</u>	<u>172,797</u>	<u>0</u>
<i>Special Education Cluster:</i>						
Special Education-Grants to States	049247-6BSF-2003	84.027	29,365		37,694	
Special Education-Grants to States	049247-6BSF-2004	84.027	144,246		132,143	
Total Special Education-Grants to States			<u>173,611</u>	<u>0</u>	<u>169,837</u>	<u>0</u>
Special Education-Preschool Grant	049247-PGS1-2004	84.173	2,864		2,864	
Total Special Education			<u>2,864</u>	<u>0</u>	<u>2,864</u>	<u>0</u>
Total Special Education Cluster			<u>176,475</u>		<u>172,701</u>	
Safe and Drug-Free Schools and Communities-State Grants	049247-DRS1-2003	84.186			4,633	
Safe and Drug-Free Schools and Communities-State Grants	049247-DRS1-2004	84.186	5,850		1,355	
Total Safe and Drug-Free Schools and Communities			<u>5,850</u>	<u>0</u>	<u>5,988</u>	<u>0</u>
Innovative Education Program Strategies	049247-C2S1-2003	84.298			1,058	
Innovative Education Program Strategies	049247-C2S1-2004	84.298	8,621		1,451	
Total Innovative Education Program Strategies			<u>8,621</u>	<u>0</u>	<u>2,509</u>	<u>0</u>
Technology Literacy Challenge	049247-TSS1-2003	84.318			956	
Technology Literacy Challenge	049247-TSS1-2004	84.318	722			
			<u>722</u>	<u>0</u>	<u>956</u>	<u>0</u>
Improving Teacher Quality	049247-TR-S1-2003	84.367	12,853		18,102	
Improving Teacher Quality	049247-TR-S1-2004	84.367	61,141		48,288	
Total Improving Teacher Quality			<u>73,994</u>	<u>0</u>	<u>66,390</u>	<u>0</u>
Total U.S. Department of Education			<u>451,912</u>	<u>0</u>	<u>421,341</u>	<u>0</u>
Total Federal Financial Assistance			<u>\$546,457</u>	<u>\$39,121</u>	<u>\$515,886</u>	<u>\$39,121</u>

The accompanying notes to this schedule are an integral part of this schedule

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) summarizes activity of the Waterloo Local School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food 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 the commodities received.

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

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Waterloo Local School District
Portage County
1464 Industry Road
Atwater, Ohio 44201

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Waterloo Local School District (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements. We have issued our report thereof dated August 8, 2005, wherein we noted the District adopted GASB Statement 34. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Waterloo Local School District
Portage County
Independent Accountants' Report on Internal Control Over
Financial Reporting And On Compliance And Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

August 8, 2005



Auditor of State Betty Montgomery

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

Waterloo Local School District
Portage County
1464 Industry Road
Atwater, Ohio 44201

To the Board of Education:

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 apply to its major federal program for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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 Waterloo Local School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

The District's management 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 directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the, audit committee, management, Board of Education and, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

August 8, 2005

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified Opinion
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified Opinion
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Program:	Title One 84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	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



**Auditor of State
Betty Montgomery**

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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
OCTOBER 4, 2005**