

WATERLOO LOCAL SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Waterloo Local School District, Portage County, prepared by Varney, Fink & Associates, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 30, 2007

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**WATERLOO LOCAL SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Waterloo Local School District (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the District, as of June 30, 2006 and the respective changes in financial position, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2007 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

INDEPENDENT AUDITOR'S REPORT (continued)

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

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

March 16, 2007

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

The management's discussion and analysis of the Waterloo Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities decreased \$866,215 which represents a 6.69% decrease from 2005.
- General revenues accounted for \$10,235,739 in revenue or 88.30% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,356,809 or 11.70% of total revenues of \$11,592,548.
- The District had \$12,458,763 in expenses related to governmental activities; \$1,356,809 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 \$10,235,739 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 \$9,359,369 in revenues and other financing sources and \$9,984,975 in expenditures. During fiscal year 2006, the general fund's fund balance decreased \$613,282 from \$1,829,311 to \$1,216,029.
- The bond retirement fund had \$9,203,892 in revenues and other financing sources and \$9,114,583 in expenditures and other financing uses. During fiscal year 2006, the bond retirement fund's fund balance increased \$89,309 from \$604,120 to \$693,429.
- The classroom facilities fund had \$40,823 in revenues and \$23,788 in expenditures. During fiscal year 2006, the classroom facilities fund's fund balance increased \$17,035 from \$828,945 to \$845,980.

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, 2006
UNAUDITED

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 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
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 21-46 of this report.

The District as a Whole

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

The table below provides a summary of the District's net assets for 2006 and 2005.

	Net Assets	
	Governmental Activities 2006	Governmental Activities 2005
<u>Assets</u>		
Current and other assets	\$ 9,028,942	\$ 9,356,272
Capital assets, net	19,021,306	19,624,099
Total assets	28,050,248	28,980,371
<u>Liabilities</u>		
Current liabilities	5,279,701	5,244,851
Long-term liabilities	10,683,991	10,782,749
Total liabilities	15,963,692	16,027,600
<u>Net Assets</u>		
Invested in capital assets, net of related debt	9,493,512	9,744,577
Restricted	2,194,882	1,842,735
Unrestricted	398,162	1,365,459
Total net assets	\$ 12,086,556	\$ 12,952,771

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$12,086,556.

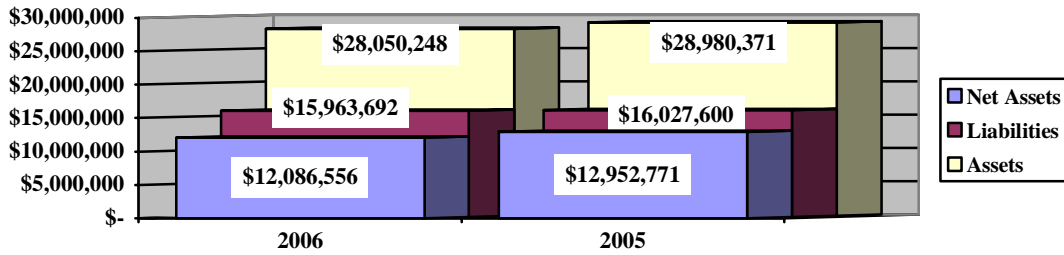
At year-end, capital assets represented 67.81% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$9,493,512. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$2,194,882, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$398,162 may be used to meet the District's ongoing obligations to the students and creditors.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED

Governmental Activities



The table below shows the change in net assets for fiscal year 2006 and 2005.

Change in Net Assets

	Governmental Activities 2006	Governmental Activities 2005
Revenues		
Program revenues:		
Charges for services and sales	\$ 555,730	\$ 515,844
Operating grants and contributions	796,484	876,411
Capital grants and contributions	4,595	4,601
General revenues:		
Property taxes	3,738,110	4,387,586
Grants and entitlements	6,240,634	6,012,954
Investment earnings	213,453	120,560
Other	43,542	47,355
Total revenues	<u>11,592,548</u>	<u>11,965,311</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

	Change in Net Assets	
	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 5,377,340	\$ 5,854,535
Special	1,211,160	976,590
Vocational	34,371	147,391
Other	21,383	-
Support services:		
Pupil	508,313	607,318
Instructional staff	509,102	545,122
Board of education	31,290	32,318
Administration	1,096,337	1,266,612
Fiscal	321,203	336,246
Business	38,994	42,663
Operations and maintenance	1,092,666	1,163,033
Pupil transportation	941,529	964,032
Central	11,676	28,781
Food service operations	421,927	392,890
Operations of non-instructional services	5,930	40,528
Extracurricular activities	338,830	408,521
Intergovernmental	100,901	114,090
Interest and fiscal charges	<u>395,811</u>	<u>548,303</u>
Total expenses	<u>12,458,763</u>	<u>13,468,973</u>
Change in net assets	(866,215)	(1,503,662)
Net assets at beginning of year	<u>12,952,771</u>	<u>14,456,433</u>
Net assets at end of year	<u>\$ 12,086,556</u>	<u>\$ 12,952,771</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$866,215. Total governmental expenses of \$12,458,763 were offset by program revenues of \$1,356,809 and general revenues of \$10,235,739. Program revenues supported 10.89% 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 86.08% of total governmental revenue.

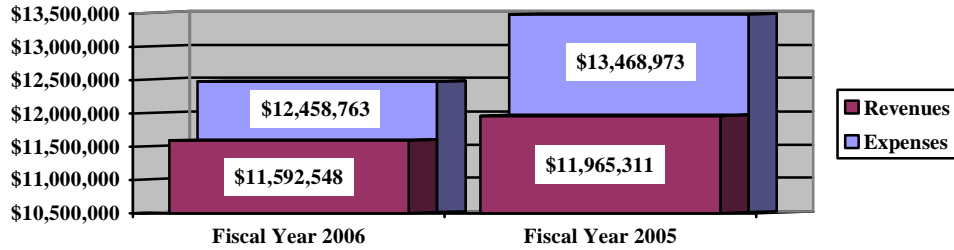
The largest expense of the District is for instructional programs. Instruction expenses totaled \$6,644,254 or 53.33% of total governmental expenses for fiscal 2006.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2006 and 2005.

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.

Governmental Activities

	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program expenses				
Instruction:				
Regular	\$ 5,377,340	\$ 5,121,566	\$ 5,854,535	\$ 5,630,663
Special	1,211,160	851,250	976,590	661,559
Vocational	34,371	34,371	147,391	147,391
Other	21,383	18,598	-	-
Support services:				
Pupil	508,313	467,958	607,318	525,044
Instructional staff	509,102	494,304	545,122	534,878
Board of education	31,290	31,290	32,318	31,438
Administration	1,096,337	1,043,896	1,266,612	1,215,607
Fiscal	321,203	321,203	336,246	329,991
Business	38,994	38,994	42,663	42,663
Operations and maintenance	1,092,666	1,059,118	1,163,033	1,132,934
Pupil transportation	941,529	908,858	964,032	934,523
Central	11,676	6,676	28,781	23,781
Food service operations	421,927	51,011	392,890	40,582
Operations of non-instructional services	5,930	895	40,528	40,003
Extracurricular activities	338,830	253,526	408,521	232,205
Intergovernmental	100,901	2,629	114,090	552
Interest and fiscal charges	395,811	395,811	548,303	548,303
Total expenses	<u>\$ 12,458,763</u>	<u>\$ 11,101,954</u>	<u>\$ 13,468,973</u>	<u>\$ 12,072,117</u>

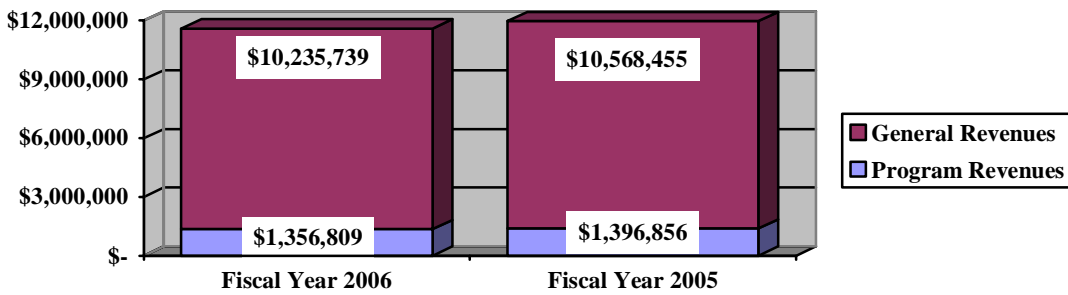
**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
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The dependence upon tax and other general revenues for governmental activities is apparent, 90.69% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 89.11%. 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 2006 and 2005.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$3,396,757, which is lower than last year's total of \$3,867,058. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance <u>June 30, 2006</u>	Fund Balance <u>June 30, 2005</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
General	\$ 1,216,029	\$ 1,829,311	\$ (613,282)	(33.53) %
Bond Retirement	693,429	604,120	89,309	14.78 %
Classroom Facilities	845,980	828,945	17,035	2.06 %
Other Governmental	641,319	604,682	36,637	6.06 %
Total	<u>\$ 3,396,757</u>	<u>\$ 3,867,058</u>	<u>\$ (470,301)</u>	(12.16) %

General Fund

The District's general fund balance decreased \$613,282. The decrease in fund balance can be attributed to several items related to decreased revenues and increased expenditures. Expenditures exceed revenues by \$625,858. 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, 2006
UNAUDITED

	2006 <u>Amount</u>	2005 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Taxes	\$ 2,839,509	\$ 3,277,876	\$ (438,367)	(13.37) %
Tuition	153,396	90,947	62,449	68.67 %
Earnings on investments	161,903	88,131	73,772	83.71 %
Intergovernmental	6,122,511	5,921,136	201,375	3.40 %
Other revenues	<u>81,798</u>	<u>75,032</u>	<u>6,766</u>	9.02 %
Total	<u>\$ 9,359,117</u>	<u>\$ 9,453,122</u>	<u>\$ (94,005)</u>	(0.99) %
<u>Expenditures</u>				
Instruction	\$ 5,555,425	\$ 5,233,414	\$ 322,011	6.15 %
Support services	4,209,644	3,913,324	296,320	7.57 %
Extracurricular activities	196,535	191,721	4,814	2.51 %
Facilities acquisition and construction	139	59,432	(59,293)	(99.77) %
Capital outlay	-	95,846	(95,846)	(100.00) %
Debt service	<u>23,232</u>	<u>18,944</u>	<u>4,288</u>	22.64 %
Total	<u>\$ 9,984,975</u>	<u>\$ 9,512,681</u>	<u>\$ 472,294</u>	4.96 %

Bond Retirement Fund

The bond retirement fund had \$9,203,892 in revenues and other financing sources and \$9,114,583 in expenditures and other financing uses. During fiscal year 2006, the bond retirement fund's fund balance increased \$89,309 from \$604,120 to \$693,429.

Classroom Facilities Fund

The classroom facilities fund had \$40,823 in revenues and \$23,788 in expenditures. During fiscal year 2006, the classroom facilities fund's fund balance increased \$17,035 from \$828,945 to \$845,980.

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 2006, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$9,366,184 and final budgeted revenues and other financing sources were \$9,391,500. Actual revenues and other financing sources for fiscal 2006 was \$9,470,139. This represents a \$78,639 increase from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$9,940,488 were increased to \$10,485,850 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2006 were unchanged from the final appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
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Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the District had \$19,021,306 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 2006 balances compared to 2005:

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

	Governmental Activities	
	2006	2005
Land	\$ 299,298	\$ 299,298
Land improvements	648,877	698,440
Building and improvements	16,858,048	17,368,693
Furniture and equipment	819,128	948,385
Vehicles	395,955	309,283
 Total	 \$ 19,021,306	 \$ 19,624,099

The overall decrease in capital assets of \$602,793 is due to depreciation expense of \$838,511 exceeding capital outlays of \$241,261 and disposals (net of accumulated depreciation) of \$5,543 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, 2006, the District had \$9,724,172 in general obligation bonds and \$73,828 in capital lease obligations outstanding. Of this total, \$528,086 is due within one year and \$9,269,914 is due within greater than one year. The following table summarizes the bonds and capital lease obligations outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2006	2005
General obligation bonds	\$ 9,724,172	\$ 9,982,450
Capital lease obligations	73,828	90,555
 Total	 \$ 9,798,000	 \$ 10,073,005

At June 30, 2006, the District's overall legal debt margin was \$4,684,550, and an unvoted debt margin of \$149,390.

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, 2006
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Current Financial Related Activities

Currently, the District's Five Year Forecast shows a positive fund balance through fiscal year 2008. 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 2007/2008 in order for the District to obtain the necessary funds to meet its future operating expenses. Without the passage of a new operating levy, the District will be facing many challenges in the future.

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

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

Contacting the District's Financial Management

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

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

STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 4,484,954
Cash with escrow agent	98,337
Cash with fiscal agent	5,925
Receivables:	
Taxes	4,112,092
Accounts	2,616
Intergovernmental	140,878
Accrued interest	12,039
Materials and supplies inventory	40,722
Unamortized bond issue costs	131,379
Capital assets:	
Land	299,298
Depreciable capital assets, net	18,722,008
Capital assets, net.	19,021,306
 Total assets.	 28,050,248
 Liabilities:	
Accounts payable.	47,549
Contracts payable.	95,229
Retainage payable	98,337
Accrued wages and benefits	958,078
Pension obligation payable.	235,798
Intergovernmental payable	136,421
Deferred revenue	3,678,469
Matured interest payable.	5,925
Accrued interest payable	23,895
Long-term liabilities:	
Due within one year.	673,282
Due within more than one year	10,010,709
Total liabilities	15,963,692
 Net Assets:	
Invested in capital assets, net of related debt.	9,493,512
Restricted for:	
Capital projects	867,549
Debt service.	698,106
Classroom facilities maintenance	324,531
State funded programs	411
Student activities	25,808
Other purposes	278,477
Unrestricted.	398,162
Total net assets	\$ 12,086,556

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, 2006

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 5,377,340	\$ 208,441	\$ 42,738	\$ 4,595	\$ (5,121,566)
Special	1,211,160	-	359,910	-	(851,250)
Vocational	34,371	-	-	-	(34,371)
Other	21,383	-	2,785	-	(18,598)
Support services:					
Pupil	508,313	-	40,355	-	(467,958)
Instructional staff	509,102	-	14,798	-	(494,304)
Board of education	31,290	-	-	-	(31,290)
Administration	1,096,337	42,077	10,364	-	(1,043,896)
Fiscal	321,203	-	-	-	(321,203)
Business	38,994	-	-	-	(38,994)
Operations and maintenance	1,092,666	-	33,548	-	(1,059,118)
Pupil transportation	941,529	-	32,671	-	(908,858)
Central	11,676	-	5,000	-	(6,676)
Operation of non-instructional services:					
Food service operations	421,927	220,377	150,539	-	(51,011)
Other non-instructional services	5,930	-	5,035	-	(895)
Extracurricular activities	338,830	84,835	469	-	(253,526)
Intergovernmental pass-through	100,901	-	98,272	-	(2,629)
Interest and fiscal charges	395,811	-	-	-	(395,811)
Total governmental activities	\$ 12,458,763	\$ 555,730	\$ 796,484	\$ 4,595	(11,101,954)
General Revenues:					
Property taxes levied for:					
					2,833,524
					217,634
					686,952
Grants and entitlements not restricted					
					6,240,634
					213,453
					43,542
					<u>10,235,739</u>
					(866,215)
					<u>12,952,771</u>
					<u>\$ 12,086,556</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>General</u>	<u>Bond Retirement</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 2,232,960	\$ 641,465	\$ 941,209	\$ 669,320	\$ 4,484,954
Cash with escrow agent	-	-	98,337	-	98,337
Cash with fiscal agent	-	5,925	-	-	5,925
Receivables:					
Taxes	3,106,466	763,430	-	242,196	4,112,092
Accounts	2,447	-	-	169	2,616
Intergovernmental	-	-	-	140,878	140,878
Accrued interest	10,913	-	-	1,126	12,039
Interfund receivable	63,183	-	-	-	63,183
Materials and supplies inventory	29,246	-	-	11,476	40,722
Total assets	<u>\$ 5,445,215</u>	<u>\$ 1,410,820</u>	<u>\$ 1,039,546</u>	<u>\$ 1,065,165</u>	<u>\$ 8,960,746</u>
Liabilities:					
Accounts payable	\$ 43,251	\$ -	\$ -	\$ 4,298	\$ 47,549
Contracts payable	-	-	95,229	-	95,229
Retainage payable	-	-	98,337	-	98,337
Accrued wages and benefits	871,102	-	-	86,976	958,078
Compensated absences payable	63,147	-	-	-	63,147
Matured interest payable	-	5,925	-	-	5,925
Pension obligation payable	212,475	-	-	23,323	235,798
Intergovernmental payable	126,004	-	-	10,417	136,421
Interfund payable	-	-	-	63,183	63,183
Deferred revenue	2,913,207	711,466	-	235,649	3,860,322
Total liabilities	<u>4,229,186</u>	<u>717,391</u>	<u>193,566</u>	<u>423,846</u>	<u>5,563,989</u>
Fund Balances:					
Reserved for encumbrances	417,247	-	281,392	22,054	720,693
Reserved for materials and supplies inventory	29,246	-	-	11,476	40,722
Reserved for property tax unavailable for appropriation	193,259	51,964	-	16,419	261,642
Reserved for debt service	-	641,465	-	-	641,465
Unreserved:					
Designation for budget stabilization	457,799	-	-	-	457,799
Undesignated, reported in:					
General fund	118,478	-	-	-	118,478
Special revenue funds	-	-	-	569,801	569,801
Capital projects funds	-	-	564,588	21,569	586,157
Total fund balances	<u>1,216,029</u>	<u>693,429</u>	<u>845,980</u>	<u>641,319</u>	<u>3,396,757</u>
Total liabilities and fund balances	<u>\$ 5,445,215</u>	<u>\$ 1,410,820</u>	<u>\$ 1,039,546</u>	<u>\$ 1,065,165</u>	<u>\$ 8,960,746</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006

Total governmental fund balances		\$ 3,396,757
<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.		19,021,306
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 171,981	
Intergovernmental revenue	9,872	
Total		181,853
Unamortized bond issuance costs are not recognized in the funds governmental activities in the statement of net assets.		131,379
Unamortized deferred charges on refundings are not recognized in the funds.		624,011
Unamortized premiums on bond issuance is not recognized in the funds.		(734,920)
Accrued interest payable is not due and payable in the current period and is therefore not reported in the funds.		(23,895)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds payable	9,724,172	
Capital lease obligation	73,828	
Compensated absences	711,935	
Total		(10,509,935)
Net assets of governmental activities		\$ 12,086,556

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, 2006

	<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	\$ 2,839,509	\$ 686,358	\$ -	\$ 217,427	\$ 3,743,294
Tuition	153,396	-	-	-	153,396
Earnings on investments	161,903	-	37,823	13,727	213,453
Charges for services	-	-	-	220,377	220,377
Extracurricular	-	-	-	126,912	126,912
Classroom materials and fees	51,995	-	-	-	51,995
Other local revenues	29,803	9,161	3,000	7,494	49,458
Intergovernmental - State	6,122,511	89,774	-	158,694	6,370,979
Intergovernmental - Federal	-	-	-	676,570	676,570
Total revenue	<u>9,359,117</u>	<u>785,293</u>	<u>40,823</u>	<u>1,421,201</u>	<u>11,606,434</u>
Expenditures:					
Current:					
Instruction:					
Regular	4,683,766	-	-	243,427	4,927,193
Special	803,918	-	-	381,145	1,185,063
Vocational	49,180	-	-	-	49,180
Other	18,561	-	-	2,822	21,383
Support services:					
Pupil	478,130	-	-	38,046	516,176
Instructional staff	450,418	-	-	16,774	467,192
Board of education	31,290	-	-	-	31,290
Administration	961,108	1,569	-	49,612	1,012,289
Fiscal	304,123	11,756	-	3,723	319,602
Business	26,117	-	-	-	26,117
Operations and maintenance	946,268	-	-	54,284	1,000,552
Pupil transportation	1,005,514	-	-	30,284	1,035,798
Central	6,676	-	-	5,000	11,676
Food service operations	-	-	-	360,209	360,209
Other non-instructional services	-	-	-	5,930	5,930
Extracurricular activities	196,535	-	-	81,506	278,041
Intergovernmental pass-through	-	-	-	99,777	99,777
Facilities acquisition and construction	139	-	23,788	10,348	34,275
Debt service:					
Principal retirement	16,727	335,000	-	-	351,727
Interest and fiscal charges	6,505	347,659	-	-	354,164
Bond issuance costs	-	138,294	-	-	138,294
Total expenditures	<u>9,984,975</u>	<u>834,278</u>	<u>23,788</u>	<u>1,382,887</u>	<u>12,225,928</u>
Excess of revenues over (under) expenditures	<u>(625,858)</u>	<u>(48,985)</u>	<u>17,035</u>	<u>38,314</u>	<u>(619,494)</u>
Other financing sources (uses):					
Sale of capital assets	252	-	-	-	252
Premium on sale of bonds	-	773,600	-	-	773,600
Sale of bonds	-	7,644,999	-	-	7,644,999
Payment to refunding bond escrow agent	-	(8,280,305)	-	-	(8,280,305)
Total other financing sources (uses)	<u>252</u>	<u>138,294</u>	<u>-</u>	<u>-</u>	<u>138,546</u>
Net change in fund balances	(625,606)	89,309	17,035	38,314	(480,948)
Fund balances at beginning of year	1,829,311	604,120	828,945	604,682	3,867,058
Increase (decrease) in reserve for inventory	12,324	-	-	(1,677)	10,647
Fund balances at end of year	<u>\$ 1,216,029</u>	<u>\$ 693,429</u>	<u>\$ 845,980</u>	<u>\$ 641,319</u>	<u>\$ 3,396,757</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, 2006

Net change in fund balances - total governmental funds	\$	(480,948)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 241,261	
Depreciation expense	(838,511)	
Total		(597,250)
The net effect of various miscellaneous transactions involving capital assets (i.e., disposals, sales, trade-ins, and donations) is to decrease net assets.		
		(5,543)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		
		10,647
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	(5,184)	
Intergovernmental	(8,702)	
Total		(13,886)
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.		
		351,727
The issuance of refunding bonds are recorded as an other financing source in the governmental funds funds; however, the proceeds increase long-term liabilities on the statement net assets.		
		(7,644,999)
Payments to refunding bond escrow agents are an other financing use in the governmental funds, but the payment reduces long-term liabilities on the statement of net assets.		
		7,645,000
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The following resulted in additional interest being reported on the statement of activities:		
Decrease in accrued interest payable	14,605	
Accreted interest on "capital appreciation" bonds	(76,723)	
Bond issuance costs incurred in the fiscal year	138,294	
Amortization of bond issuance costs	(6,915)	
Premium on bonds issued in the fiscal year	(773,600)	
Amortization on bond premiums	38,680	
Deferred charge on refunding incurred in fiscal year	635,305	
Amortization of deferred charge on refunding	(11,294)	
Total		(41,648)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
		(89,315)
Change in net assets of governmental activities	\$	(866,215)

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, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 2,856,260	\$ 2,863,980	\$ 2,887,962	\$ 23,982
Tuition.	151,712	152,122	153,396	1,274
Earnings on investments.	156,865	157,289	158,606	1,317
Classroom materials and fees	51,149	51,287	51,716	429
Other local revenues	29,644	29,724	29,973	249
Intergovernmental - State	<u>6,055,304</u>	<u>6,071,671</u>	<u>6,122,511</u>	<u>50,840</u>
Total revenue	<u>9,300,934</u>	<u>9,326,073</u>	<u>9,404,164</u>	<u>78,091</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,455,202	4,699,627	4,699,627	-
Special.	897,733	946,985	946,985	-
Vocational.	71,597	75,525	75,525	-
Other.	16,714	17,631	17,631	-
Support services:				
Pupil.	449,640	474,308	474,308	-
Instructional staff	465,616	491,161	491,161	-
Board of education	32,574	34,361	34,361	-
Administration.	925,172	975,930	975,930	-
Fiscal	313,467	330,665	330,665	-
Business	57,975	61,156	61,156	-
Operations and maintenance.	1,033,190	1,089,874	1,089,874	-
Pupil transportation	967,136	1,020,196	1,020,196	-
Central.	7,075	7,462	7,462	-
Extracurricular activities.	187,368	197,647	197,647	-
Facilities acquisition and construction.	<u>132</u>	<u>139</u>	<u>139</u>	<u>-</u>
Total expenditures	<u>9,880,591</u>	<u>10,422,667</u>	<u>10,422,667</u>	<u>-</u>
Excess of revenues under expenditures.	<u>(579,657)</u>	<u>(1,096,594)</u>	<u>(1,018,503)</u>	<u>78,091</u>
Other financing sources (uses):				
Refund of prior year expenditure.	1,892	1,897	1,913	16
Advances in.	63,109	63,280	63,810	530
Advances (out)	(59,897)	(63,183)	(63,183)	-
Sale of capital assets.	<u>249</u>	<u>250</u>	<u>252</u>	<u>2</u>
Total other financing sources (uses)	<u>5,353</u>	<u>2,244</u>	<u>2,792</u>	<u>548</u>
Net change in fund balance	(574,304)	(1,094,350)	(1,015,711)	78,639
Fund balance at beginning of year.	2,092,045	2,092,045	2,092,045	-
Prior year encumbrances appropriated	<u>627,798</u>	<u>627,798</u>	<u>627,798</u>	<u>-</u>
Fund balance at end of year	<u>\$ 2,145,539</u>	<u>\$ 1,625,493</u>	<u>\$ 1,704,132</u>	<u>\$ 78,639</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, 2006

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 27,556
Total assets.	<u>\$ 27,556</u>
Liabilities:	
Due to students	\$ 27,556
Total liabilities	<u>\$ 27,556</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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 399th largest by total enrollment among the 615 public school districts in the state. The District's enrollment as of June 30, 2006 was 1,385. The District employed 100 certified employees and 62 non-certified employees.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

JOINTLY GOVERNED ORGANIZATIONS

Stark Portage Area Computer Consortium (SPARCC)

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

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

Portage Area School Consortium

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

INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

B. Fund Accounting

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

GOVERNMENTAL FUNDS

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

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

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

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

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

PROPRIETARY FUNDS

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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, 2006

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, 2006, but which were levied to finance fiscal year 2007 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. The specific timetable for fiscal year 2006 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, 2006**

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

2. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final amended certificates issued for fiscal year 2006.
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, 2006, however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
7. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During fiscal year 2006, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio). Investments in STAR Ohio are reported at fair value, which is based on quoted market prices.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

The District has invested funds in STAR Ohio during fiscal 2006. 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, 2006.

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 2006 amounted to \$161,903, which includes \$48,691 assigned from other funds.

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

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

G. Inventory

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2006, the District maintained a capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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

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

I. Interfund Balances

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

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2006, 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, 2006, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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

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

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

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

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

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Fund Balance Reserves and Designations

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

N. Net Assets

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

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

O. Estimates

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

P. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish an instructional materials reserve and a capital maintenance reserve. These reserves are required by state statute. At June 30, 2006, the District did not have any restricted assets. A schedule of statutory reserves is presented in Note 16.

Q. Interfund Activity

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2006.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 3 - ACCOUNTABILITY & COMPLIANCE

A. Changes in Accounting Principles

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

B. Deficit Fund Balances

Fund balances at June 30, 2006 included the following individual fund deficits:

<u>Nonmajor Governmental Funds</u>	<u>Deficit</u>
Auxiliary Services	\$ 6,671
Ohio Reads	26
Poverty Aid	37
IDEA Part B Grants	10,545
Improving Teacher Quality	743
Miscellaneous Federal Grants	10

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
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 Treasurer's investment pool State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

A. Cash on Hand

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

B. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all District deposits was \$1,645,734. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$1,635,971 of the District's bank balance of \$1,835,971 was exposed to custodial risk as discussed below, while \$200,000 was covered by Federal Deposit Insurance Corporation.

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

C. Investments

As of June 30, 2006, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturity 6 months or less</u>
STAR Ohio	\$ 2,968,888	\$ 2,968,888

The weighted average maturity of investments is one day.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 2,968,888	100.00%

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,645,734
Investments	2,968,888
Cash on hand	<u>2,150</u>
Total	<u>\$ 4,616,772</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 4,589,216
Agency fund	<u>27,556</u>
Total	<u>\$ 4,616,772</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2006 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Interfund Loans Payable to General Fund from:</u>	<u>Amount</u>
Nonmajor governmental funds	\$ 63,183

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, 2006 are reported on the statement of net assets.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, 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 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 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 taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, 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. This year, the June 2006 tangible personal property tax settlement was not received until July of 2006.

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

The District receives property taxes from Portage County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 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, 2006 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 6 - PROPERTY TAXES - (Continued)

The amounts available as an advance at June 30, 2006 were \$193,259 in the general fund, \$51,964 in the bond retirement debt service fund, \$12,426 the emergency levy special revenue fund, and \$3,993 in the classroom facilities maintenance special revenue fund. These amounts have been recorded as revenue. The amounts available as an advance at June 30, 2005 were \$241,712 in the general fund, \$66,847 in the bond retirement debt service fund, \$15,933 in the emergency levy special revenue fund, and \$5,072 in the classroom facilities maintenance special revenue fund.

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

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 134,424,320	90.43	\$ 137,399,760	91.98
Public Utility Personal	5,986,070	4.03	5,562,120	3.73
Tangible Personal Property	<u>8,244,365</u>	<u>5.54</u>	<u>6,427,970</u>	<u>4.29</u>
Total	<u>\$ 148,654,755</u>	<u>100.00</u>	<u>\$ 149,389,850</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 60.01		\$ 59.94	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

<u>Governmental Activities:</u>	<u>Amount</u>
Taxes	\$ 4,112,092
Accounts	2,616
Intergovernmental	140,878
Accrued interest	<u>12,039</u>
Total	<u>\$ 4,267,625</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance</u> <u>06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/06</u>
<u>Governmental Activities</u>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 299,298	\$ -	\$ -	\$ 299,298
Total capital assets, not being depreciated	<u>299,298</u>	<u>-</u>	<u>-</u>	<u>299,298</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	882,232	-	-	882,232
Buildings and improvements	20,344,405	-	-	20,344,405
Furniture and equipment	1,528,019	10,890	-	1,538,909
Vehicles	1,084,810	230,371	(55,428)	1,259,753
Total capital assets, being depreciated	<u>23,839,466</u>	<u>241,261</u>	<u>(55,428)</u>	<u>24,025,299</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(183,792)	(49,563)	-	(233,355)
Buildings and improvements	(2,975,712)	(510,645)	-	(3,486,357)
Furniture and equipment	(579,634)	(140,147)	-	(719,781)
Vehicles	(775,527)	(138,156)	49,885	(863,798)
Total accumulated depreciation	<u>(4,514,665)</u>	<u>(838,511)</u>	<u>49,885</u>	<u>(5,303,291)</u>
Governmental activities capital assets, net	<u>\$ 19,624,099</u>	<u>\$ (597,250)</u>	<u>\$ (5,543)</u>	<u>\$ 19,021,306</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 328,542
Special	16,414

Support Services:

Pupil	10,588
Instructional staff	38,715
Administration	88,628
Fiscal	4,041
Business	12,877
Operations and maintenance	83,377
Pupil transportation	140,013
Extracurricular activities	60,789
Food service operations	<u>54,527</u>
Total depreciation expense	<u>\$ 838,511</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

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

Capital assets consisting of copiers acquired by lease have been capitalized in the amount of \$95,846. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Accumulated depreciation as of June 30, 2006 was \$17,972, leaving a current book value of \$77,874. Principal payments in fiscal year 2006 totaled \$16,727 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, 2006:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2007	\$ 23,232
2008	23,231
2009	23,231
2010	<u>15,489</u>
Total	85,183
Less: amount representing interest	<u>(11,355)</u>
Present value	<u>\$ 73,828</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 10 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	Balance at June 30, 2005	<u>Additions</u>	<u>Reductions</u>	Balance at June 30, 2006	Amounts Due in One Year
<u>General obligation bonds:</u>					
Series 2001 construction:					
Current interest	\$ 9,415,000	\$ -	\$ (7,980,000)	\$ 1,435,000	\$ -
Capital appreciation	373,967	-	-	373,967	197,876
Accreted interest	193,483	61,069	-	254,552	152,124
Series 2006 refunding:					
Current interest	-	7,480,000	-	7,480,000	160,000
Capital appreciation	-	164,999	-	164,999	-
Accreted interest	-	15,654	-	15,654	-
<u>Other long-term obligations:</u>					
Capital lease obligation	90,555	-	(16,727)	73,828	18,086
Compensated absences	<u>709,744</u>	<u>192,007</u>	<u>(126,669)</u>	<u>775,082</u>	<u>145,196</u>
Total	<u>\$ 10,782,749</u>	<u>\$ 7,913,729</u>	<u>\$ (8,123,396)</u>	10,573,082	<u>\$ 673,282</u>
Less: Unamortized deferred charge on refunding				(624,011)	
Add: Unamortized premium on refunding				<u>734,920</u>	
Total on statement of net assets				<u>\$ 10,683,991</u>	

B. General Obligation Bonds – Series 2001 Construction

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

These bonds represent the amount of the Construction Project that the District itself was required to finance, in accordance with the terms of a facilities grant from the Ohio School Facilities Commission (OSFC). OSFC will make quarterly disbursements to the District as the project is completed. As of June 30, 2004, the total estimated cost of the Construction Project is \$25,522,356, of which OSFC will pay \$15,087,193.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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

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

During fiscal year 2006, the District made \$335,000 in principal payments and then refunded the callable portion (\$7,645,000) of the current interest bonds. None of the capital appreciation bonds were refunded. Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2011.

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

Fiscal Year Ending June 30	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ -	\$ -	\$ -	\$ 197,876	\$ 152,124	\$ 350,000
2008	-	-	-	176,091	168,909	345,000
2009	320,000	463,453	783,453	-	-	-
2010	335,000	449,183	784,183	-	-	-
2011	380,000	433,282	813,282	-	-	-
2012	400,000	415,732	815,732	-	-	-
Total	<u>\$ 1,435,000</u>	<u>\$ 1,761,650</u>	<u>\$ 3,196,650</u>	<u>\$ 373,967</u>	<u>\$ 321,033</u>	<u>\$ 695,000</u>

C. General Obligation Bonds – Series 2006 Refunding

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

The refunding issue is comprised of both current interest bonds, par value \$7,480,000, and capital appreciation bonds, par value \$164,999. The capital appreciation bonds mature December 1, 2012 and December 1, 2013 at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2006 was \$164,999. Total accreted interest of \$15,654 has been included in the statement of activities.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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

The following is a summary of the future debt service requirements to maturity for the 2006 series refunding bonds:

Year Ended	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 160,000	\$ 293,176	\$ 453,176	\$ -	\$ -	\$ -
2008	90,000	288,800	378,800	-	-	-
2009	95,000	285,563	380,563	-	-	-
2010	95,000	282,238	377,238	-	-	-
2011	100,000	278,825	378,825	-	-	-
2012 - 2016	1,165,000	1,326,838	2,491,838	164,999	1,020,001	1,185,000
2017 - 2021	2,985,000	864,900	3,849,900	-	-	-
2022 - 2025	2,790,000	228,000	3,018,000	-	-	-
Total	<u>\$ 7,480,000</u>	<u>\$ 3,848,340</u>	<u>\$ 11,328,340</u>	<u>\$ 164,999</u>	<u>\$ 1,020,001</u>	<u>\$ 1,185,000</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, 2006 are a voted debt margin of \$4,684,550 and an unvoted debt margin of \$149,390.

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 11 - RISK MANAGEMENT - (Continued)

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 - PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$142,677, \$135,292 and \$118,212, respectively; 45.94% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$77,128 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 12 - PENSION PLANS - (Continued)

B. State Teachers Retirement System

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

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$629,611, \$607,943, and \$599,019, respectively; 84.23% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$99,264 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. The District and plan members made no contributions to the DC and Combined Plans for fiscal 2006.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$48,432 for fiscal year 2006.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$71,630 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006 were \$158.751 million. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million, which is about 221 percent of next years projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 59,492 participants currently receiving health care benefits.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ (1,015,711)
Net adjustment for revenue accruals	(45,047)
Net adjustment for expenditure accruals	(91,136)
Net adjustment for other financing sources/uses	(2,540)
Encumbrances	528,828
GAAP basis	\$ (625,606)

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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, 2006, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Maintenance</u>	<u>School Bus Purchases</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 2005	\$ (133,263)	\$ (622,729)	\$ 40,974	\$ 407,799
Current year set-aside requirement	192,054	192,054	6,961	50,000
Current year offsets	-	(871,110)	-	-
Qualifying disbursements	<u>(135,835)</u>	<u>(79,965)</u>	<u>(47,935)</u>	<u>-</u>
Total	<u>\$ (77,044)</u>	<u>\$ (1,381,750)</u>	<u>\$ -</u>	<u>\$ 457,799</u>
Cash balance carried forward to FY 2007	<u>\$ (77,044)</u>	<u>\$ (430,675)</u>	<u>\$ -</u>	<u>\$ 457,799</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, a portion of this negative amount may be used to reduce the set-aside requirement for future years, and is therefore presented as being carried forward to the next fiscal year.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Waterloo Local School District (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 16, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting 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 misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (continued)

We noted certain matters that we reported to management of the District in a separate letter dated March 16, 2007.

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

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

March 16, 2007

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

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

Compliance

We have audited the compliance of the Waterloo Local School District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Waterloo Local School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2006.

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

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the 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 the 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 detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weakness.

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

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

March 16, 2007

Waterloo Local School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2006

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Receipts	Disbursements
<u>U.S. Department of Agriculture</u>				
<i>Passed Through Ohio Department of Education:</i>				
Food Donation	10.550	- - -	\$40,143	\$40,143
Child Nutrition Cluster:				
National School Lunch Program	10.555	049247-LLP4-2006	71,647	71,647
National School Lunch Program	10.555	049247-LLP4-2005	24,235	24,235
Total National School Lunch Program			95,882	95,882
School Breakfast Program	10.553	049247-05PU-2006	6,816	6,816
School Breakfast Program	10.553	049247-05PU-2005	2,185	2,185
Total School Breakfast Program			9,001	9,001
Total U.S. Department of Agriculture - Child Nutrition Cluster			104,883	104,883
Total U.S. Department of Agriculture			145,026	145,026
<u>U.S. Department of Education</u>				
<i>Passed Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	84.010	049247-C1S1-2006	192,367	191,364
Title I Grants to Local Educational Agencies	84.010	049247-C1S1-2005	54,699	56,066
Total Title I Grants to Local Educational Agencies			247,066	247,430
Special Education Cluster:				
Special Education-Grants to States	84.027	049247-6BSF-2006	216,733	214,879
Special Education-Grants to States	84.027	049247-6BSF-2005	61,131	61,131
Total Special Education - Grants to States			277,864	276,010
Special Education-Preschool Grants	84.173	049247-PGS1-2006	4,386	4,386
Total Special Education Cluster			282,250	280,396
Safe and Drug-Free Schools and Communities - State Grants	84.186	049247-DRS1-2006	7,003	7,003
Safe and Drug-Free Schools and Communities - State Grants	84.186	049247-DRS1-2005	0	3,883
Total Safe and Drug-Free Schools and Communities - State Grants			7,003	10,886
State Grants for Innovative Programs	84.298	049247-C2S1-2006	4,402	4,402
State Grants for Innovative Programs	84.298	049247-C2S1-2005	2,608	4,519
Total State Grants for Innovative Programs			7,010	8,921
Education Technology State Grants	84.318	049247-TJS1-2006	2,992	2,992
Education Technology State Grants	84.318	049247-TJS1-2005	1,546	1,546
Total Education Technology State Grants			4,538	4,538
Improving Teacher Quality State Grants	84.367	049247-TRS1-2006	60,209	60,121
Total U.S. Department of Education			608,076	612,292
<u>U.S. Department of Health and Human Services</u>				
<i>Passed Through the Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Medical Assistance Program	93.778	----	442	442
Total U.S. Department of Health and Human Services			442	442
Total Federal Assistance			\$753,544	\$757,760

WATERLOO LOCAL SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

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

WATERLOO LOCAL SCHOOL DISTRICT

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

1. SUMMARY OF AUDITOR'S RESULTS

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

WATERLOO LOCAL SCHOOL DISTRICT

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(CONTINUED)**

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

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

None

3. FINDINGS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
Auditor of State

WATERLOO LOCAL SCHOOL DISTRICT

PORTAGE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 10, 2007**