

**WATERLOO LOCAL SCHOOL DISTRICT**  
**INDEPENDENT AUDITOR'S REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**





**Auditor of State  
Betty Montgomery**

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, 2004 through June 30, 2005. 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.

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

July 7, 2006

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**WATERLOO LOCAL SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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*BASIC FINANCIAL STATEMENTS*

**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, 2005, 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 an opinion 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 opinion.

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, 2005 and the respective changes in financial position thereof 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.

As described in Note 3, during the year ended June 30, 2005, the District implemented Governmental Accounting Standards Board Technical Bulletin 2004-02, Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 conjunction with this report in considering 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

**INDEPENDENT AUDITOR'S REPORT** (continued)

the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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, INC.  
Certified Public Accountants

April 19, 2006

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
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, 2005. 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 2005 are as follows:

- In total, net assets of governmental activities decreased \$1,503,662 which represents a 10.40% decrease from 2004.
- General revenues accounted for \$10,568,455 in revenue or 88.33% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,396,856 or 11.67% of total revenues of \$11,965,311.
- The District had \$13,468,973 in expenses related to governmental activities; \$1,396,856 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 \$10,568,455 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 \$9,548,968 in revenues and other financing sources and \$9,535,189 in expenditures and other financing uses. During fiscal year 2005, the general fund's fund balance increased \$15,671 from \$1,813,640 to \$1,829,311.
- The bond retirement fund had \$926,942 in revenues and \$844,363 in expenditures. During fiscal year 2005, the bond retirement fund's fund balance increased \$82,579 from \$521,541 to \$604,120.
- The classroom facilities fund had \$26,359 in revenues and \$1,336,583 in expenditures. During fiscal year 2005, the classroom facilities fund's fund balance decreased \$1,310,224 from \$2,139,169 to \$828,945.

**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, 2005  
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**Reporting the District as a Whole**

***Statement of Net Assets and the Statement of Activities***

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

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

**Reporting the District's Most Significant Funds**

***Fund Financial Statements***

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

***Governmental Funds***

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

***Reporting the District's Fiduciary Responsibilities***

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
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***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 21-44 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 2005 and 2004.

	<b>Net Assets</b>	
	Governmental Activities	Governmental Activities
	<u>2005</u>	<u>2004</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 9,356,272	\$ 11,027,356
Capital assets	<u>19,624,099</u>	<u>20,214,847</u>
Total assets	<u>28,980,371</u>	<u>31,242,203</u>
<b><u>Liabilities</u></b>		
Current liabilities	5,244,851	5,747,316
Long-term liabilities	<u>10,782,749</u>	<u>11,038,454</u>
Total liabilities	<u>16,027,600</u>	<u>16,785,770</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	9,744,577	10,051,239
Restricted	1,842,735	2,971,061
Unrestricted	<u>1,365,459</u>	<u>1,434,133</u>
Total net assets	<u>\$ 12,952,771</u>	<u>\$ 14,456,433</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$12,952,771. Of this total, \$1,365,459 is unrestricted in use.

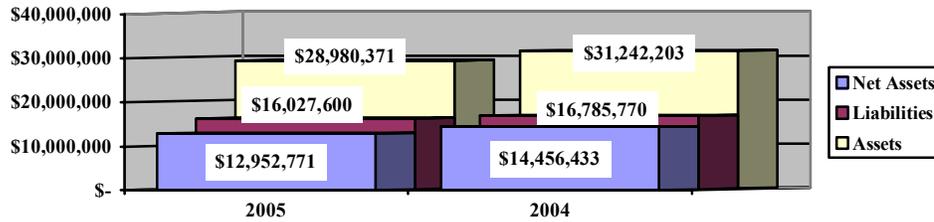
At year-end, capital assets represented 67.72% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$9,744,577. These capital assets are used 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, \$1,842,735, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,365,459 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  
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**Governmental Activities**



The table below shows the change in net assets for fiscal year 2005 and 2004.

**Change in Net Assets**

	Governmental Activities 2005	Governmental Activities 2004
<b>Revenues</b>		
Program revenues:		
Charges for services and sales	\$ 515,844	\$ 499,824
Operating grants and contributions	876,411	780,196
Capital grants and contributions	4,601	52,028
General revenues:		
Property taxes	4,387,586	4,047,436
Grants and entitlements	6,012,954	6,019,714
Investment earnings	120,560	136,403
Other	<u>47,355</u>	<u>73,121</u>
Total revenues	<u>11,965,311</u>	<u>11,608,722</u>

**WATERLOO LOCAL SCHOOL DISTRICT  
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	<b>Change in Net Assets</b>	
	Governmental Activities	Governmental Activities
	<u>2005</u>	<u>2004</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 5,854,535	\$ 6,208,030
Special	976,590	1,150,726
Vocational	147,391	150,992
Support services:		
Pupil	607,318	611,319
Instructional staff	545,122	560,392
Board of education	32,318	31,731
Administration	1,266,612	1,248,412
Fiscal	336,246	333,158
Business	42,663	44,886
Operations and maintenance	1,163,033	1,287,395
Pupil transportation	964,032	1,164,008
Central	28,781	25,618
Food service operations	392,890	444,104
Operations of non-instructional services	40,528	2,818
Extracurricular activities	408,521	404,086
Intergovernmental	114,090	112,424
Interest and fiscal charges	548,303	555,903
Total expenses	<u>13,468,973</u>	<u>14,336,002</u>
Change in net assets	(1,503,662)	(2,727,280)
Net assets at beginning of year	<u>14,456,433</u>	<u>17,183,713</u>
Net assets at end of year	<u>\$ 12,952,771</u>	<u>\$ 14,456,433</u>

**Governmental Activities**

Net assets of the District's governmental activities decreased \$1,503,662. Total governmental expenses of \$13,468,973 were offset by program revenues of \$1,396,856 and general revenues of \$10,568,455. Program revenues supported 10.37% of the total governmental expenses.

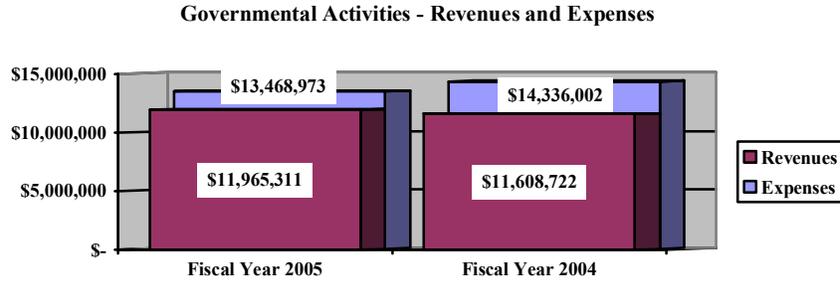
The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 86.92% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$6,978,516 or 51.81% of total governmental expenses for fiscal 2005.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
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The graph below presents the District's governmental activities revenue and expenses for fiscal year 2005 and 2004.



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.

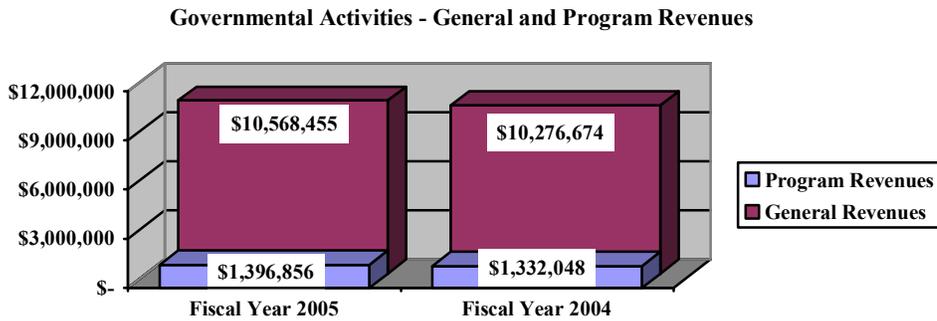
	<b>Governmental Activities</b>			
	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
<b>Program expenses</b>				
Instruction:				
Regular	\$ 5,854,535	\$ 5,630,663	\$ 6,208,030	\$ 5,986,084
Special	976,590	661,559	1,150,726	861,014
Vocational	147,391	147,391	150,992	141,881
Support services:				
Pupil	607,318	525,044	611,319	539,966
Instructional staff	545,122	534,878	560,392	519,228
Board of education	32,318	31,438	31,731	27,753
Administration	1,266,612	1,215,607	1,248,412	1,205,215
Fiscal	336,246	329,991	333,158	327,174
Business	42,663	42,663	44,886	44,886
Operations and maintenance	1,163,033	1,132,934	1,287,395	1,285,270
Pupil transportation	964,032	934,523	1,164,008	1,159,481
Central	28,781	23,781	25,618	20,618
Food service operations	392,890	40,582	444,104	97,834
Operations of non-instructional services	40,528	40,003	2,818	(1,390)
Extracurricular activities	408,521	232,205	404,086	232,677
Intergovernmental	114,090	552	112,424	360
Interest and fiscal charges	548,303	548,303	555,903	555,903
<b>Total expenses</b>	<u>\$ 13,468,973</u>	<u>\$ 12,072,117</u>	<u>\$ 14,336,002</u>	<u>\$ 13,003,954</u>

**WATERLOO LOCAL SCHOOL DISTRICT  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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The dependence upon tax and other general revenues for governmental activities is apparent, 92.28% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 89.63%. 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 2005 and 2004.



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$3,867,058, which is lower than last year's total of \$5,036,995. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance June 30, 2005	Restated Fund Balance June 30, 2004	Increase (Decrease)	Percentage Change
General	\$ 1,829,311	\$ 1,813,640	\$ 15,671	0.86 %
Bond Retirement	604,120	521,541	82,579	15.83 %
Classroom Facilities	828,945	2,139,169	(1,310,224)	(61.25) %
Other Governmental	604,682	562,645	42,037	7.47 %
<b>Total</b>	<b>\$ 3,867,058</b>	<b>\$ 5,036,995</b>	<b>\$ (1,169,937)</b>	<b>(23.23) %</b>

**General Fund**

The District's general fund balance increased \$15,671 (after a restatement to the June 30, 2004, fund balance which is detailed in Note 3.A. to the basic financial statements). The increase in fund balance can be attributed to several items related to flat revenue growth and decreased expenditures. Revenues and other financing sources exceed expenditures and other financing uses for fiscal year 2005 by \$13,779. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

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	2005 <u>Amount</u>	Restated 2004 <u>Amount</u>	Increase (Decrease)	Percentage Change
<b><u>Revenues</u></b>				
Taxes	\$ 3,277,876	\$ 2,977,412	\$ 300,464	10.09 %
Tuition	90,947	89,681	1,266	1.41 %
Earnings on investments	88,131	47,043	41,088	87.34 %
Intergovernmental	5,921,136	5,929,243	(8,107)	(0.14) %
Other revenues	<u>75,032</u>	<u>56,466</u>	<u>18,566</u>	32.88 %
Total	<u>\$ 9,453,122</u>	<u>\$ 9,099,845</u>	<u>\$ 353,277</u>	3.88 %
<b><u>Expenditures</u></b>				
Instruction	\$ 5,233,414	\$ 5,129,507	\$ 103,907	2.03 %
Support services	3,913,324	4,182,964	(269,640)	(6.45) %
Non-instructional services	-	166	(166)	(100.00) %
Extracurricular activities	191,721	180,683	11,038	6.11 %
Facilities acquisition and construction	59,432	8,304	51,128	615.70 %
Capital outlay	95,846	-	95,846	100.00 %
Debt service	<u>18,944</u>	<u>19,200</u>	<u>(256)</u>	(1.33) %
Total	<u>\$ 9,512,681</u>	<u>\$ 9,520,824</u>	<u>\$ (8,143)</u>	(0.09) %

***Bond Retirement Fund***

The bond retirement fund had \$926,942 in revenues and \$844,363 in expenditures. During fiscal year 2005, the bond retirement fund's fund balance increased \$82,579 from \$521,541 to \$604,120.

***Classroom Facilities Fund***

The classroom facilities fund had \$26,359 in revenues and \$1,336,583 in expenditures. During fiscal year 2005, the classroom facilities fund's fund balance decreased \$1,310,224 from \$2,139,169 to \$828,945.

***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 2005, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$11,094,421 and final budgeted revenues and other financing sources were \$9,322,648. Actual revenues and other financing sources for fiscal 2005 was \$9,429,130. This represents a \$106,482 increase from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$10,055,964 were increased to \$10,156,069 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$10,155,384, which was \$685 less than the final budget appropriations.

**WATERLOO LOCAL SCHOOL DISTRICT  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2005, the District had \$19,624,099 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 2005 balances compared to 2004:

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

	Governmental Activities	
	2005	2004
Land	\$ 299,298	\$ 299,298
Land improvements	698,440	748,003
Building and improvements	17,368,693	17,796,948
Furniture and equipment	948,385	991,418
Vehicles	309,283	379,180
 Total	 \$ 19,624,099	 \$ 20,214,847

The overall decrease in capital assets of \$590,748 is due to depreciation expense of \$762,236 exceeding capital outlays of \$191,114 and disposals (net of accumulated depreciation) of \$19,626 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, 2005, the District had \$9,982,450 in general obligation bonds and \$90,555 in capital lease obligations outstanding. Of this total, \$351,727 is due within one year and \$9,721,278 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
	2005	2004
General obligation bonds	\$ 9,982,450	\$ 10,247,314
Energy conservation notes	-	20,471
Capital lease obligations	90,555	31,486
 Total	 \$ 10,073,005	 \$ 10,299,271

At June 30, 2005, the District's overall legal debt margin was \$3,935,706, and an unvoted debt margin of \$148,655.

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  
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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 2006/2007 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 57% of general operating revenues, one of the largest challenges facing the District is that of state funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither, "adequate" nor "equitable". On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. At this time, the District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

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

**Contacting the District's Financial Management**

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

BASIC  
FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS  
JUNE 30, 2005

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . .	\$ 4,853,173
Cash with escrow agent . . . . .	151,834
Cash with fiscal agent . . . . .	5,925
Receivables:	
Taxes . . . . .	4,167,873
Accounts . . . . .	5,521
Intergovernmental . . . . .	133,680
Accrued interest . . . . .	8,191
Materials and supplies inventory . . . . .	30,075
Capital assets:	
Land . . . . .	299,298
Depreciable capital assets, net . . . . .	19,324,801
Capital assets, net . . . . .	19,624,099
 Total assets . . . . .	 28,980,371
 <b>Liabilities:</b>	
Accounts payable . . . . .	42,191
Contracts payable . . . . .	145,909
Retainage payable . . . . .	151,834
Accrued wages and benefits . . . . .	973,457
Pension obligation payable . . . . .	175,573
Intergovernmental payable . . . . .	50,318
Deferred revenue . . . . .	3,661,144
Matured interest payable . . . . .	5,925
Accrued interest payable . . . . .	38,500
Long-term liabilities:	
Due within one year . . . . .	484,302
Due within more than one year . . . . .	10,298,447
Total liabilities . . . . .	16,027,600
 <b>Net Assets:</b>	
Invested in capital assets, net of related debt . . . . .	9,744,577
Restricted for:	
Capital projects . . . . .	851,639
Debt service . . . . .	593,598
Classroom facilities maintenance . . . . .	288,294
State funded programs . . . . .	3,573
Federal funded programs . . . . .	31,647
Student activities . . . . .	22,010
Other purposes . . . . .	51,974
Unrestricted . . . . .	1,365,459
Total net assets . . . . .	\$ 12,952,771

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, 2005

		Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
<b>Governmental activities:</b>						
Instruction:						
Regular . . . . .	\$ 5,854,535	\$ 126,116	\$ 97,756	\$ -		\$ (5,630,663)
Special . . . . .	976,590	-	315,031	-		(661,559)
Vocational . . . . .	147,391	-	-	-		(147,391)
Support services:						
Pupil . . . . .	607,318	-	82,274	-		(525,044)
Instructional staff . . . . .	545,122	-	10,244	-		(534,878)
Board of education . . . . .	32,318	-	880	-		(31,438)
Administration . . . . .	1,266,612	-	51,005	-		(1,215,607)
Fiscal . . . . .	336,246	-	6,255	-		(329,991)
Business . . . . .	42,663	-	-	-		(42,663)
Operations and maintenance . . . . .	1,163,033	-	25,498	4,601		(1,132,934)
Pupil transportation . . . . .	964,032	-	29,509	-		(934,523)
Central . . . . .	28,781	-	5,000	-		(23,781)
Operation of non-instructional services:						
Food service operations . . . . .	392,890	213,412	138,896	-		(40,582)
Other non-instructional services . . . . .	40,528	-	525	-		(40,003)
Extracurricular activities . . . . .	408,521	176,316	-	-		(232,205)
Intergovernmental pass-through . . . . .	114,090	-	113,538	-		(552)
Interest and fiscal charges . . . . .	548,303	-	-	-		(548,303)
<b>Total governmental activities . . . . .</b>	<b>\$ 13,468,973</b>	<b>\$ 515,844</b>	<b>\$ 876,411</b>	<b>\$ 4,601</b>		<b>(12,072,117)</b>
 <b>General Revenues:</b>						
Property taxes levied for:						
General purposes . . . . .						3,292,621
Special revenue . . . . .						257,992
Debt service . . . . .						836,973
Grants and entitlements not restricted to specific programs . . . . .						6,012,954
Investment earnings . . . . .						120,560
Miscellaneous . . . . .						47,355
<b>Total general revenues . . . . .</b>						<b>10,568,455</b>
Change in net assets . . . . .						(1,503,662)
<b>Net assets at beginning of year (restated) . . . . .</b>						<b>14,456,433</b>
<b>Net assets at end of year . . . . .</b>						<b>\$ 12,952,771</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>					
Equity in pooled cash and cash equivalents . . . . .	\$ 2,678,869	\$ 537,273	\$ 974,854	\$ 621,203	\$ 4,812,199
Cash with escrow agent . . . . .	-	-	151,834	-	151,834
Cash with fiscal agent . . . . .	-	5,925	-	-	5,925
Receivables:					
Taxes . . . . .	3,160,471	765,654	-	241,748	4,167,873
Accounts . . . . .	5,140	-	-	381	5,521
Intergovernmental . . . . .	-	-	-	133,680	133,680
Accrued interest . . . . .	7,616	-	-	575	8,191
Interfund receivable . . . . .	63,810	-	-	-	63,810
Materials and supplies inventory . . . . .	16,922	-	-	13,153	30,075
Restricted assets:					
Equity in pooled cash and cash equivalents . . . . .	40,974	-	-	-	40,974
<b>Total assets . . . . .</b>	<b><u>\$ 5,973,802</u></b>	<b><u>\$ 1,308,852</u></b>	<b><u>\$ 1,126,688</u></b>	<b><u>\$ 1,010,740</u></b>	<b><u>\$ 9,420,082</u></b>
<b>Liabilities:</b>					
Accounts payable . . . . .	\$ 36,022	\$ -	\$ -	\$ 6,169	\$ 42,191
Contracts payable . . . . .	-	-	145,909	-	145,909
Retainage payable . . . . .	-	-	151,834	-	151,834
Accrued wages and benefits . . . . .	901,346	-	-	72,111	973,457
Compensated absences payable . . . . .	80,901	-	-	6,223	87,124
Matured interest payable . . . . .	-	5,925	-	-	5,925
Pension obligation payable . . . . .	165,184	-	-	10,389	175,573
Intergovernmental payable . . . . .	42,279	-	-	8,039	50,318
Interfund payable . . . . .	-	-	-	63,810	63,810
Deferred revenue . . . . .	2,918,759	698,807	-	239,317	3,856,883
<b>Total liabilities . . . . .</b>	<b><u>4,144,491</u></b>	<b><u>704,732</u></b>	<b><u>297,743</u></b>	<b><u>406,058</u></b>	<b><u>5,553,024</u></b>
<b>Fund Balances:</b>					
Reserved for encumbrances . . . . .	594,006	-	140,625	57,042	791,673
Reserved for materials and supplies inventory . . . . .	16,922	-	-	13,153	30,075
Reserved for property tax unavailable for appropriation . . . . .	241,712	66,847	-	21,005	329,564
Reserved for debt service . . . . .	-	537,273	-	-	537,273
Reserved for school bus purchases . . . . .	40,974	-	-	-	40,974
Unreserved, undesignated, reported in:					
General fund . . . . .	935,697	-	-	-	935,697
Special revenue funds . . . . .	-	-	-	499,068	499,068
Capital projects funds . . . . .	-	-	688,320	14,414	702,734
<b>Total fund balances . . . . .</b>	<b><u>1,829,311</u></b>	<b><u>604,120</u></b>	<b><u>828,945</u></b>	<b><u>604,682</u></b>	<b><u>3,867,058</u></b>
<b>Total liabilities and fund balances . . . . .</b>	<b><u>\$ 5,973,802</u></b>	<b><u>\$ 1,308,852</u></b>	<b><u>\$ 1,126,688</u></b>	<b><u>\$ 1,010,740</u></b>	<b><u>\$ 9,420,082</u></b>

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, 2005

<b>Total governmental fund balances</b>		\$	3,867,058
<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.			19,624,099
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	177,165	
Intergovernmental revenue		<u>18,574</u>	
Total			195,739
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		9,982,450	
Capital lease obligation		90,555	
Accrued interest payable		38,500	
Compensated absences		<u>622,620</u>	
Total			<u>(10,734,125)</u>
<b>Net assets of governmental activities</b>		\$	<u><u>12,952,771</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
From local sources:					
Taxes . . . . .	\$ 3,277,876	\$ 835,124	\$ -	\$ 257,433	\$ 4,370,433
Tuition . . . . .	90,947	-	-	-	90,947
Earnings on investments . . . . .	88,131	-	26,359	6,070	120,560
Charges for services . . . . .	-	-	-	213,412	213,412
Extracurricular . . . . .	-	-	-	176,316	176,316
Classroom materials and fees . . . . .	35,169	-	-	-	35,169
Other local revenues . . . . .	39,863	-	-	7,492	47,355
Intergovernmental - State . . . . .	5,921,136	91,818	-	191,977	6,204,931
Intergovernmental - Federal . . . . .	-	-	-	697,903	697,903
Total revenue . . . . .	<u>9,453,122</u>	<u>926,942</u>	<u>26,359</u>	<u>1,550,603</u>	<u>11,957,026</u>
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular . . . . .	4,497,387	-	173,931	308,271	4,979,589
Special . . . . .	597,649	-	-	300,397	898,046
Vocational . . . . .	138,378	-	-	-	138,378
Support services:					
Pupil . . . . .	427,046	-	-	93,622	520,668
Instructional staff . . . . .	429,618	-	-	11,394	441,012
Board of education . . . . .	29,165	-	-	-	29,165
Administration . . . . .	983,658	1,499	-	109,652	1,094,809
Fiscal . . . . .	281,073	11,736	-	3,716	296,525
Business . . . . .	33,913	-	-	-	33,913
Operations and maintenance . . . . .	942,516	-	-	36,816	979,332
Pupil transportation . . . . .	771,362	-	-	32,246	803,608
Central . . . . .	14,973	-	6,000	5,000	25,973
Food service operations . . . . .	-	-	-	307,558	307,558
Other non-instructional services . . . . .	-	-	-	36,574	36,574
Extracurricular activities . . . . .	191,721	-	-	128,710	320,431
Intergovernmental pass-through . . . . .	-	-	-	114,124	114,124
Facilities acquisition and construction . . . . .	59,432	-	1,156,652	43,294	1,259,378
Capital outlay . . . . .	95,846	-	-	-	95,846
Debt service:					
Principal retirement . . . . .	15,351	340,471	-	-	355,822
Interest and fiscal charges . . . . .	3,593	490,657	-	-	494,250
Total expenditures . . . . .	<u>9,512,681</u>	<u>844,363</u>	<u>1,336,583</u>	<u>1,531,374</u>	<u>13,225,001</u>
Excess of revenues over (under) expenditures . . . . .	<u>(59,559)</u>	<u>82,579</u>	<u>(1,310,224)</u>	<u>19,229</u>	<u>(1,267,975)</u>
<b>Other financing sources (uses):</b>					
Transfers in . . . . .	-	-	-	22,508	22,508
Transfers (out) . . . . .	(22,508)	-	-	-	(22,508)
Proceeds from capital lease transaction . . . . .	95,846	-	-	-	95,846
Total other financing sources (uses) . . . . .	<u>73,338</u>	<u>-</u>	<u>-</u>	<u>22,508</u>	<u>95,846</u>
Net change in fund balances . . . . .	13,779	82,579	(1,310,224)	41,737	(1,172,129)
<b>Fund balances at beginning of year (restated) . . . . .</b>					
	1,813,640	521,541	2,139,169	562,645	5,036,995
<b>Increase in reserve for inventory . . . . .</b>	1,892	-	-	300	2,192
<b>Fund balances at end of year . . . . .</b>	<u>\$ 1,829,311</u>	<u>\$ 604,120</u>	<u>\$ 828,945</u>	<u>\$ 604,682</u>	<u>\$ 3,867,058</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, 2005

<b>Net change in fund balances - total governmental funds</b>	\$	(1,172,129)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$762,236) exceeds capital outlays (\$191,114) in the current period.		(571,122)
The net effect of various miscellaneous transactions involving capital assets (i.e., disposals, sales, trade-ins, and donations) is to decrease net assets.		(19,626)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		2,192
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		8,285
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.		355,822
The capital lease obligation was terminated ahead of schedule. The effect of this transaction reduces long-term liabilities on the statement of net assets.		21,426
Proceeds of capital lease transactions are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.		(95,846)
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds and additional accumulated accreted interest on the capital appreciation bonds.		(54,053)
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		21,389
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u>(1,503,662)</u></b>

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, 2005

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 3,688,453	\$ 3,099,409	\$ 3,134,810	\$ 35,401
Tuition . . . . .	107,009	89,920	90,947	1,027
Earnings on investments . . . . .	98,209	82,525	83,468	943
Classroom materials and fees . . . . .	41,295	34,700	35,096	396
Other local revenues . . . . .	39,338	33,056	33,434	378
Intergovernmental - State . . . . .	6,966,876	5,854,269	5,921,136	66,867
Total revenue . . . . .	<u>10,941,180</u>	<u>9,193,879</u>	<u>9,298,891</u>	<u>105,012</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	4,471,250	4,515,761	4,515,761	-
Special . . . . .	793,756	801,658	801,658	-
Vocational . . . . .	131,317	132,624	132,624	-
Support services:				
Pupil . . . . .	429,590	433,866	433,866	-
Instructional staff . . . . .	472,050	476,749	476,749	-
Board of education . . . . .	28,021	28,300	28,300	-
Administration . . . . .	1,027,042	1,037,266	1,037,266	-
Fiscal . . . . .	281,908	284,714	284,714	-
Business . . . . .	72,597	73,320	73,320	-
Operations and maintenance . . . . .	1,126,679	1,137,895	1,137,895	-
Pupil transportation . . . . .	876,087	884,808	884,123	685
Central . . . . .	16,012	16,171	16,171	-
Extracurricular activities . . . . .	183,758	185,587	185,587	-
Facilities acquisition and construction . . . . .	60,430	61,032	61,032	-
Total expenditures . . . . .	<u>9,970,497</u>	<u>10,069,751</u>	<u>10,069,066</u>	<u>685</u>
Excess of revenues under expenditures . . . . .	<u>970,683</u>	<u>(875,872)</u>	<u>(770,175)</u>	<u>105,697</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure . . . . .	5,560	4,672	4,725	53
Transfers (out) . . . . .	(22,286)	(22,508)	(22,508)	-
Advances in . . . . .	125,287	105,279	106,481	1,202
Advances (out) . . . . .	(63,181)	(63,810)	(63,810)	-
Proceeds from sale of capital assets . . . . .	22,394	18,818	19,033	215
Total other financing sources (uses) . . . . .	<u>67,774</u>	<u>42,451</u>	<u>43,921</u>	<u>1,470</u>
Net change in fund balance . . . . .	1,038,457	(833,421)	(726,254)	107,167
<b>Fund balance at beginning of year . . . . .</b>	<b>2,289,403</b>	<b>2,289,403</b>	<b>2,289,403</b>	<b>-</b>
<b>Prior year encumbrances appropriated . . . . .</b>	<b>528,896</b>	<b>528,896</b>	<b>528,896</b>	<b>-</b>
<b>Fund balance at end of year . . . . .</b>	<b><u>\$ 3,856,756</u></b>	<b><u>\$ 1,984,878</u></b>	<b><u>\$ 2,092,045</u></b>	<b><u>\$ 107,167</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2005

	<u>Agency</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 25,545
Total assets. . . . .	<u>\$ 25,545</u>
<b>Liabilities:</b>	
Due to students . . . . .	\$ 25,545
Total liabilities . . . . .	<u>\$ 25,545</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**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 395th largest by total enrollment among the 614 public school districts in the state. The District's enrollment as of June 30, 2005 was 1,391. The District employed 99 certified employees and 55 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, 2005

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

*JOINTLY GOVERNED ORGANIZATIONS*

Stark Portage Area Computer Consortium (SPARCC)

SPARCC is a joint venture among 31 school districts. The joint venture was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports SPARCC based upon a per pupil charge dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months financial contribution. SPARCC is governed by a Board of Directors consisting of superintendents of the members school districts. The degree of control exercised by any school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the District does not have any equity interest in SPARCC as a residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest. Financial information can be obtained from Clifford Pocock, Treasurer for the Stark County Educational Service Center, who serves as fiscal agent, at 2100 39<sup>th</sup> 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.

*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:

**WATERLOO LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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

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

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

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

*PROPRIETARY FUNDS*

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

*FIDUCIARY FUNDS*

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

**C. Basis of Presentation and Measurement Focus**

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

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.

**WATERLOO LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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).

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.

**WATERLOO LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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, 2005, but which were levied to finance fiscal year 2006 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 2005 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.
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 2005.
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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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, 2005, 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 2005, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

The District has invested funds in STAR Ohio during fiscal 2005. 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, 2005.

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 2005 amounted to \$88,131, which includes \$28,743 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

**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 2005, 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. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives
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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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, 2005, 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, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

**K. Accrued Liabilities and Long-Term Obligations**

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

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

**L. Fund Balance Reserves**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

**M. Net Assets**

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

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

**N. Estimates**

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

**O. Restricted Assets**

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

**P. Interfund Activity**

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

**Q. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2005.

**NOTE 3 - ACCOUNTABILITY & COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures"; and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 3 - ACCOUNTABILITY & COMPLIANCE - (Continued)**

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the basic financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Bond Retirement</u>	<u>Classroom Facilities</u>	<u>Other Governmental</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ 1,893,626	\$ 521,541	\$ 2,139,169	\$ 571,663	\$ 5,125,999
GASB Technical Bulletin No. 2004-2	<u>(79,986)</u>	<u>-</u>	<u>-</u>	<u>(9,018)</u>	<u>(89,004)</u>
Restated Fund Balances, June 30, 2004	<u>\$ 1,813,640</u>	<u>\$ 521,541</u>	<u>\$ 2,139,169</u>	<u>\$ 562,645</u>	<u>\$ 5,036,995</u>

**B. Prior Period Adjustment**

Governmental activities net assets have been restated in order to properly report the June 30, 2004 balances of capital assets and the OSFC grant receivable. The effect on net assets at June 30, 2004 is as follows:

**Governmental Activities**

Net assets, June 30, 2004	\$ 14,753,330
Restatement of capital assets	(13,060)
Restatement of OSFC grant receivable	<u>(283,837)</u>
Restated net assets, July 1, 2004	<u>\$ 14,456,433</u>

**C. Deficit Fund Balances**

Fund balances at June 30, 2005 included the following individual fund deficits:

<u>Nonmajor Governmental Funds</u>	<u>Deficit</u>
Auxiliary Services	\$ 6,072
IDEA Part B Grants	19,412
Improving Teacher Quality	298

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, 2005

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

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.

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,

**WATERLOO LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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, 2005, the carrying amount of all District deposits was \$1,669,285. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$1,717,364 of the District's bank balance of \$1,917,364 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, 2005, 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	\$ 3,365,042	\$ 3,365,042

*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:* The District's investments, except for the repurchase agreement as discussed above and STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

**WATERLOO LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

*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, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 3,365,042	100.00%

**D. Reconciliation of Cash and Investment 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, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,669,285
Investments	3,365,042
Cash on hand	<u>2,150</u>
Total	<u>\$ 5,036,477</u>

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 5,010,932
Agency funds	<u>25,545</u>
Total	<u>\$ 5,036,477</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

- A.** Interfund balances at June 30, 2005 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	\$ 63,810

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, 2005 are reported on the Statement of Net Assets.

- B.** Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

<u>Transfers from General Fund to:</u>	<u>Amount</u>
Nonmajor Governmental Funds	\$ 22,508

**WATERLOO LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**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 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, 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 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Portage County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 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, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amounts available as an advance at June 30, 2005 were \$241,712 in the general fund, \$66,847 in the bond retirement debt service fund, \$15,933 the emergency levy special revenue fund, and \$5,072 in the classroom facilities maintenance special revenue fund. These amounts have been recorded as revenue. The amounts available as an advance at June 30, 2004 were \$98,646 in the general fund, \$27,359 in the bond retirement debt service fund, \$6,572 in the emergency levy special revenue fund, and \$2,065 in the classroom facilities maintenance special revenue fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 6 - PROPERTY TAXES - (Continued)**

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

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 132,117,240	89.58	\$ 134,424,320	90.43
Public Utility Personal	6,122,270	4.16	5,986,070	4.03
Tangible Personal Property	<u>9,246,874</u>	<u>6.26</u>	<u>8,244,365</u>	<u>5.54</u>
Total	<u>\$ 147,486,384</u>	<u>100.00</u>	<u>\$ 148,654,755</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 60.07		\$ 60.01	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2005 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	\$ 4,167,873
Accounts	5,521
Intergovernmental	133,680
Accrued interest	<u>8,191</u>
Total	<u>\$ 4,315,265</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  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Restated Balance <u>06/30/04</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/05</u>
<b><u>Governmental Activities</u></b>				
<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	20,264,024	80,381	-	20,344,405
Furniture and equipment	1,479,090	110,733	(61,804)	1,528,019
Vehicles	<u>1,084,810</u>	<u>-</u>	<u>-</u>	<u>1,084,810</u>
Total capital assets, being depreciated	<u>23,710,156</u>	<u>191,114</u>	<u>(61,804)</u>	<u>23,839,466</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(134,229)	(49,563)	-	(183,792)
Buildings and improvements	(2,467,076)	(508,636)	-	(2,975,712)
Furniture and equipment	(487,672)	(134,140)	42,178	(579,634)
Vehicles	<u>(705,630)</u>	<u>(69,897)</u>	<u>-</u>	<u>(775,527)</u>
Total accumulated depreciation	<u>(3,794,607)</u>	<u>(762,236)</u>	<u>42,178</u>	<u>(4,514,665)</u>
Governmental activities capital assets, net	<u>\$ 20,214,847</u>	<u>\$ (571,122)</u>	<u>\$ (19,626)</u>	<u>\$ 19,624,099</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 324,674
Special	16,355
<u>Support Services:</u>	
Pupil	10,550
Instructional staff	42,397
Administration	89,281
Fiscal	5,459
Business	6,884
Operations and maintenance	81,978
Pupil transportation	71,661
Extracurricular activities	60,235
Food service operations	<u>52,762</u>
Total depreciation expense	<u>\$ 762,236</u>

**WATERLOO LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE**

During fiscal 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. Principal payments in fiscal year 2005 totaled \$15,351 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, 2005:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2006	\$ 23,232
2007	23,232
2008	23,231
2009	23,231
2010	<u>15,489</u>
Total	108,415
Less: amount representing interest	<u>(17,860)</u>
Present value	<u>\$ 90,555</u>

**NOTE 10 - LONG-TERM OBLIGATIONS**

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

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

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

**WATERLOO LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

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.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2024.

The following is a schedule of activity for fiscal 2005 on the 2003 series general obligation bonds:

	Balance Outstanding <u>06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/05</u>	Amounts Due in <u>One Year</u>
General obligation bonds:					
Current interest bonds	\$ 9,735,000	\$ -	\$ (320,000)	\$ 9,415,000	\$ 335,000
Capital appreciation bonds	<u>512,314</u>	<u>55,136</u>	<u>-</u>	<u>567,450</u>	<u>-</u>
Total G.O. bonds	<u>\$ 10,247,314</u>	<u>\$ 55,136</u>	<u>\$ (320,000)</u>	<u>\$ 9,982,450</u>	<u>\$ 335,000</u>

The following is a summary of the future debt service requirements to maturity for the 2005 series general obligation bonds:

Fiscal Year Ending June 30	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 335,000	\$ 477,032	\$ 812,032	\$ -	\$ -	\$ -
2007	-	470,332	470,332	350,000	-	350,000
2008	-	470,333	470,333	345,000	-	345,000
2009	320,000	463,453	783,453	-	-	-
2010	335,000	449,201	784,201	-	-	-
2011 - 2015	2,250,000	1,945,950	4,195,950	-	-	-
2016 - 2020	2,730,000	1,253,394	3,983,394	-	-	-
2021 - 2025	<u>3,445,000</u>	<u>457,278</u>	<u>3,902,278</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 9,415,000</u>	<u>\$ 5,986,973</u>	<u>\$ 15,401,973</u>	<u>\$ 695,000</u>	<u>\$ -</u>	<u>\$ 695,000</u>

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

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

The following is a description of the District's energy conservation notes outstanding as of June 30, 2005:

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

	Interest Rate	Maturity Date	Balance Outstanding 06/30/04	Reductions	Balance Outstanding 06/30/05	Amounts Due in One Year
Energy conservation notes	5.15%	12/04	\$ 20,471	\$ (20,471)	\$ -	\$ -

During fiscal year 2005, the District retired energy conservation notes and no liability exists as of June 30, 2005.

- C. During the year ended June 30, 2005, the following changes occurred in the liabilities reported in long-term obligations.

	Balance Outstanding 06/30/04	Additions	Reductions	Balance Outstanding 06/30/05	Amounts Due in One Year
<b><u>Governmental Activities:</u></b>					
General obligation current interest bonds - 2001 issue	\$ 9,735,000	\$ -	\$ (320,000)	\$ 9,415,000	\$ 335,000
General obligation capital appreciation bonds - 2001 issue	512,314	55,136	-	567,450	-
Energy conservation notes	20,471	-	(20,471)	-	-
Capital lease obligation	31,486	95,846	(36,777)	90,555	16,727
Compensated absences	739,183	18,016	(47,455)	709,744	132,575
Total	<u>\$ 11,038,454</u>	<u>\$ 168,998</u>	<u>\$ (424,703)</u>	<u>\$ 10,782,749</u>	<u>\$ 484,302</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, 2005 are a voted debt margin of \$3,935,706 and an unvoted debt margin of \$148,655.

**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.

**WATERLOO LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**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 - DEFINED BENEFIT PENSION PLAN**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$135,292, \$118,212 and \$102,035, respectively; 61.05% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$95,778 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

**WATERLOO LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 12 - DEFINED BENEFIT PENSION PLAN - (Continued)**

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at [www.strsoh.org](http://www.strsoh.org).

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

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$607,943, \$599,019, and \$414,766, respectively; 83.85% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$105,716 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$89.25 made by the District and \$144.50 made by plan members.

**WATERLOO LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 12 - DEFINED BENEFIT PENSION PLAN - (Continued)**

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$46,763 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254.78 million and STRS had 115,395 eligible benefit recipients.

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

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of the projected claims less premium contributions for the next fiscal year. Expenses for health care at June 30, 2005 were \$178.221 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168% of next year's projected net health care costs of \$158.776 million, and SERS had approximately 58,123 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$70,607 during the 2005 fiscal year.

**WATERLOO LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**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:

<b>Net Change in Fund Balance</b>	<u>General Fund</u>
Budget basis	\$ (726,254)
Net adjustment for revenue accruals	154,231
Net adjustment for expenditure accruals	(71,413)
Net adjustment for other financing sources/uses	29,417
Encumbrances	<u>627,798</u>
GAAP basis	<u>\$ 13,779</u>

**NOTE 15 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

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

**WATERLOO LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 15 - CONTINGENCIES - (Continued)**

**C. State School Funding Decision**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

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

**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, 2005, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Maintenance</u>	<u>Bus Purchases</u>
Set-aside cash balance as of June 30, 2004	\$ (123,764)	\$ (813,921)	\$ 20,860
Current year set-aside requirement	191,192	191,192	20,114
Current year offsets	-	(941,528)	-
Qualifying disbursements	<u>(200,691)</u>	<u>(22,580)</u>	<u>-</u>
Total	<u>\$ (133,263)</u>	<u>\$ (1,586,837)</u>	<u>\$ 40,974</u>
Cash balance carried forward to FY 2006	<u>\$ (133,263)</u>	<u>\$ (622,729)</u>	<u>\$ 40,974</u>

A schedule of the restricted assets at June 30, 2005 follows:

Amounts restricted for bus purchases	<u>\$ 40,974</u>
Total restricted assets	<u>\$ 40,974</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.

The District had monies restricted for school bus purchases as of June 30, 2005.

**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, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 19, 2006. 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 opinion 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 operations 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 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)

However, we noted certain matters that we reported to management of the District in a separate letter dated April 19, 2006.

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, INC.  
Certified Public Accountants

April 19, 2006

**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, 2005. 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 its major federal program for the year ended June 30, 2005.

**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 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 weaknesses.

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, INC.  
Certified Public Accountants

April 19, 2006

**Waterloo Local School District  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2005**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Receipts	Disbursements
<b><u>U.S. Department of Agriculture</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
National School Lunch Program	10.555	049247-LLP4-2005	\$64,855	\$64,855
National School Lunch Program	10.555	049247-LLP4-2004	24,651	24,651
Total National School Lunch Program			89,506	89,506
Federal School Breakfast	10.553	049247-O5PU-2005	6,857	6,857
Federal School Breakfast	10.553	049247-O5PU-2004	1,692	1,692
Total Federal School Breakfast			\$8,549	\$8,549
Food Donation	10.550	----	37,690	37,690
Total U.S. Department of Agriculture - Child Nutrition Cluster			135,745	135,745
<b><u>U.S. Department of Education</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
State Grants for Innovative Programs	84.298	049247-C2S1-2005	4,053	4,749
State Grants for Innovative Programs	84.298	049247-C2S1-2004	0	7,170
Total State Grants for Innovative Programs			4,053	11,919
Title I Grants to Local Educational Agencies	84.010	049247-C1S1-2005	117,199	118,034
Title I Grants to Local Educational Agencies	84.010	049247-C1S1-2004	34,833	30,237
Total Title I Grants to Local Educational Agencies			152,032	148,271
Safe and Drug-Free Schools and Communities - State Grants	84.186	049247-DRS1-2005	6,086	2,204
Safe and Drug-Free Schools and Communities - State Grants	84.186	049247-DRS1-2004	0	4,494
Total Safe and Drug-Free Schools and Communities - State Grants			6,086	6,698
Special Education Cluster:				
Special Education-Grants to States	84.027	049247-6BSF-2005	237,892	286,426
Special Education-Grants to States	84.027	049247-6BSF-2004	49,207	31,946
Special Education-Preschool Grants	84.173	049247-PGS1-2005	0	3,583
Total Special Education Clusters			287,099	321,955
Improving Teacher Quality State Grants	84.367	049247-TRS1-2005	60,826	60,826
Education Technology State Grants	84.318	049247-TJS1-2004	3,015	6,752
Education Technology State Grants	84.318	049247-TJS1-2005	4,638	6,184
Total Education Technology State Grants			7,653	12,936
Total U.S. Department of Education			517,749	562,605
Total Federal Assistance			\$ 653,494	\$ 698,350

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

**WATERLOO LOCAL SCHOOL DISTRICT**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**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 - FOOD DISTRIBUTION**

Nonmonetary assistance such as food received from the U.S. Department of Agriculture, is reported in the schedule at the fair market value of the commodities received and disbursed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2005, the District had no significant food commodities in inventory.

**WATERLOO LOCAL SCHOOL DISTRICT**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**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, 2005  
(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



**Auditor of State  
Betty Montgomery**

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**WATERLOO LOCAL SCHOOL DISTRICT**

**PORTAGE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JULY 20, 2006**