

WATERLOO LOCAL SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Varney, Fink & Associates, Inc.
Certified Public Accountants



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Waterloo Local School District, Portage County, prepared by Varney, Fink & Associates, Inc., for the audit period July 1, 2007 through June 30, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 29, 2009

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**WATERLOO LOCAL SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

TABLE OF CONTENTS

<i>INDEPENDENT AUDITOR'S REPORT</i>	1	
<i>Management's Discussion and Analysis</i>	3	
 <i>BASIC FINANCIAL STATEMENTS</i>		
Government-Wide Financial Statements:		
Statement of Net Assets	13	
Statement of Activities	14	
Fund Financial Statements:		
Balance Sheet – Governmental Funds	15	
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	16	
Statement of Revenues, Expenditures and Changes in Fund Balances –Governmental Funds	17	
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) General Fund	19	
Statement of Fiduciary Net Assets – Fiduciary Funds	20	
Notes to the Basic Financial Statements	21	
 Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		48
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with <i>OMB Circular A-133</i>		50
Schedule of Expenditures of Federal Awards	52	
Notes to the Schedule of Expenditures of Federal Awards	53	
Schedule of Findings	54	

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Waterloo Local School District (the District), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the District, as of June 30, 2008 and the respective changes in financial position, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2009 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT (continued)

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

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

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

February 13, 2009

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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, 2008. 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 2008 are as follows:

- In total, net assets of governmental activities decreased \$387,418 which represents a 3.25% decrease from 2007.
- General revenues accounted for \$10,488,596 in revenue or 83.12% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,130,254 or 16.88% of total revenues of \$12,618,850.
- The District had \$13,006,268 in expenses related to governmental activities; \$2,130,254 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 \$10,488,596 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund, bond retirement fund and classroom facilities fund. The general fund had \$10,305,908 in revenues and \$10,345,649 in expenditures. During fiscal year 2008, the general fund's fund balance decreased \$53,959 from \$1,204,464 to \$1,150,505.
- The bond retirement fund had \$783,768 in revenues and \$803,576 in expenditures. During fiscal year 2008, the bond retirement fund's fund balance decreased \$19,808 from \$602,962 to \$583,154.
- The classroom facilities fund had \$38,348 in revenues. During fiscal year 2008, the classroom facilities fund's fund balance increased \$38,348 from \$956,644 to \$994,992.

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, 2008

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 2008?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 21-46 of this report.

The District as a Whole

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

The table below provides a summary of the District's net assets for 2008 and 2007.

	Net Assets	
	Governmental Activities <u>2008</u>	Governmental Activities <u>2007</u>
<u>Assets</u>		
Current and other assets	\$ 9,310,398	\$ 9,154,539
Capital assets, net	<u>17,602,056</u>	<u>18,325,614</u>
Total assets	<u>26,912,454</u>	<u>27,480,153</u>
<u>Liabilities</u>		
Current liabilities	5,509,023	5,298,846
Long-term liabilities	<u>9,877,040</u>	<u>10,267,498</u>
Total liabilities	<u>15,386,063</u>	<u>15,566,344</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	8,752,104	9,173,782
Restricted	2,502,210	2,482,028
Unrestricted	<u>272,077</u>	<u>257,999</u>
Total net assets	<u>\$ 11,526,391</u>	<u>\$ 11,913,809</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the District's assets exceeded liabilities by \$11,526,391.

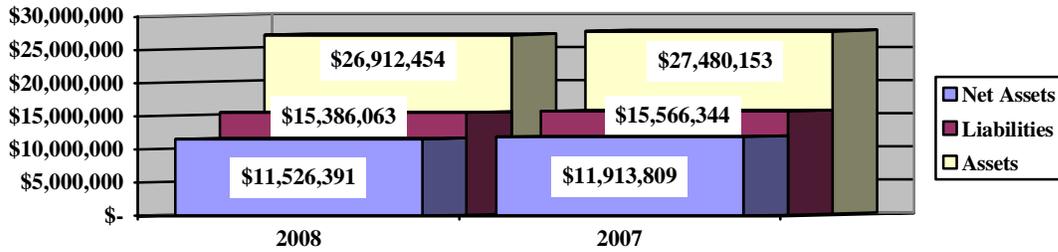
At year-end, capital assets represented 65.40% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2008, were \$8,752,104. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$2,502,210, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$272,077 may be used to meet the District's ongoing obligations to the students and creditors.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Governmental Activities



The table below shows the change in net assets for fiscal year 2008 and 2007.

Change in Net Assets

	Governmental Activities 2008	Governmental Activities 2007
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 620,956	\$ 551,062
Operating grants and contributions	1,463,095	1,018,645
Capital grants and contributions	46,203	27,897
General revenues:		
Property taxes	4,058,369	4,050,764
Grants and entitlements	6,241,002	6,654,920
Investment earnings	146,477	266,022
Other	42,748	181,099
Total revenues	<u>12,618,850</u>	<u>12,750,409</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Change in Net Assets	
	Governmental Activities	Governmental Activities
	<u>2008</u>	<u>2007</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 5,625,029	\$ 5,474,145
Special	1,547,395	1,342,422
Vocational	46,880	38,900
Other	30,765	7,050
Support services:		
Pupil	402,614	467,498
Instructional staff	467,245	514,394
Board of education	29,211	19,161
Administration	911,963	1,114,327
Fiscal	331,055	328,237
Business	36,470	36,411
Operations and maintenance	1,204,545	1,110,820
Pupil transportation	1,048,639	981,683
Central	16,628	17,504
Food service operations	389,379	429,130
Operations of non-instructional services	1,861	11,739
Extracurricular activities	378,463	372,607
Intergovernmental	88,888	85,694
Interest and fiscal charges	<u>449,238</u>	<u>506,651</u>
Total expenses	<u>13,006,268</u>	<u>12,858,373</u>
Special Item:		
OSFC interest disbursement	<u>-</u>	<u>(64,783)</u>
Change in net assets	(387,418)	(172,747)
Net assets at beginning of year	<u>11,913,809</u>	<u>12,086,556</u>
Net assets at end of year	<u>\$ 11,526,391</u>	<u>\$ 11,913,809</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$387,418. Total governmental expenses of \$13,006,268 were offset by program revenues of \$2,130,254 and general revenues of \$10,488,596. Program revenues supported 16.38% 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 81.62% of total governmental revenue.

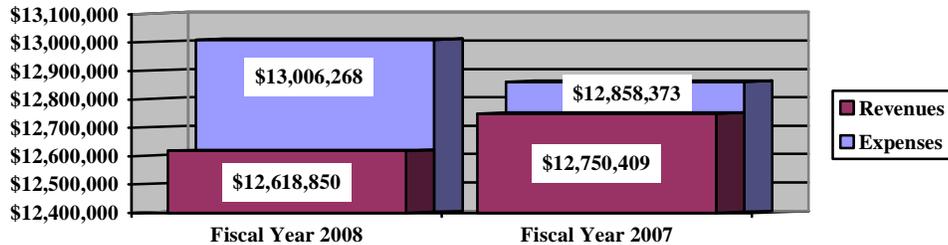
The largest expense of the District is for instructional programs. Instruction expenses totaled \$7,250,069 or 55.74% of total governmental expenses for fiscal 2008.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2008 and 2007.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

	Total Cost of Services <u>2008</u>	Net Cost of Services <u>2008</u>	Total Cost of Services <u>2007</u>	Net Cost of Services <u>2007</u>
Program expenses				
Instruction:				
Regular	\$ 5,625,029	\$ 5,268,534	\$ 5,474,145	\$ 5,214,614
Special	1,547,395	677,797	1,342,422	843,103
Vocational	46,880	35,648	38,900	38,672
Other	30,765	30,765	7,050	951
Support services:				
Pupil	402,614	274,354	467,498	372,159
Instructional staff	467,245	448,145	514,394	503,278
Board of education	29,211	29,211	19,161	19,161
Administration	911,963	847,973	1,114,327	1,050,574
Fiscal	331,055	330,393	328,237	327,384
Business	36,470	36,470	36,411	36,411
Operations and maintenance	1,204,545	1,172,967	1,110,820	1,077,461
Pupil transportation	1,048,639	987,737	981,683	960,319
Central	16,628	11,628	17,504	12,504
Food service operations	389,379	14,125	429,130	36,553
Operations of non-instructional services	1,861	(103,165)	11,739	940
Extracurricular activities	378,463	275,306	372,607	272,938
Intergovernmental	88,888	88,888	85,694	(12,904)
Interest and fiscal charges	449,238	449,238	506,651	506,651
Total expenses	<u>\$ 13,006,268</u>	<u>\$ 10,876,014</u>	<u>\$ 12,858,373</u>	<u>\$ 11,260,769</u>

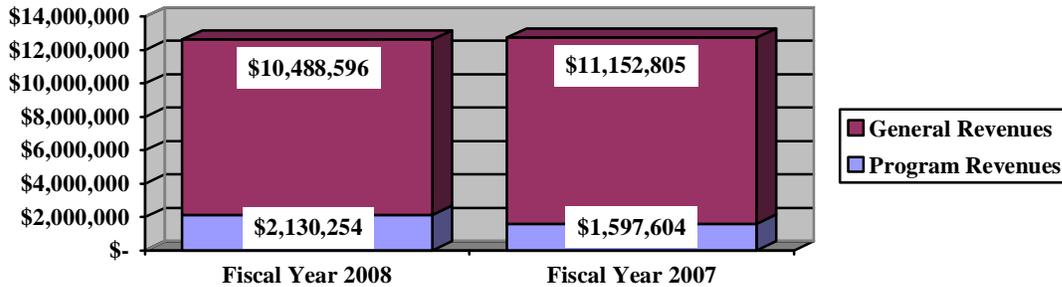
**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The dependence upon tax and other general revenues for governmental activities is apparent, 82.93% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 83.62%. 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 2008 and 2007.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$3,450,539, which is lower than last year's total of \$3,473,791. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2008 and 2007.

	Fund Balance <u>June 30, 2008</u>	Fund Balance <u>June 30, 2007</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
General	\$ 1,150,505	\$ 1,204,464	\$ (53,959)	(4.48) %
Bond Retirement	583,154	602,962	(19,808)	(3.29) %
Classroom Facilities	994,992	956,644	38,348	4.01 %
Other Governmental	<u>721,888</u>	<u>709,721</u>	<u>12,167</u>	1.71 %
Total	<u>\$ 3,450,539</u>	<u>\$ 3,473,791</u>	<u>\$ (23,252)</u>	(0.67) %

General Fund

The District's general fund balance decreased \$53,959. The decrease in fund balance can be attributed to several items related to increased revenues and increased expenditures. Expenditures exceed revenues by \$39,741. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>2008</u> <u>Amount</u>	<u>2007</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 3,176,347	\$ 3,074,399	\$ 101,948	3.32 %
Tuition	199,754	142,249	57,505	40.43 %
Earnings on investments	146,477	216,259	(69,782)	(32.27) %
Intergovernmental	6,698,725	6,605,346	93,379	1.41 %
Other revenues	<u>84,605</u>	<u>96,662</u>	<u>(12,057)</u>	(12.47) %
Total	<u>\$ 10,305,908</u>	<u>\$ 10,134,915</u>	<u>\$ 170,993</u>	1.69 %
<u>Expenditures</u>				
Instruction	\$ 6,333,653	\$ 5,834,753	\$ 498,900	8.55 %
Support services	3,770,664	4,087,969	(317,305)	(7.76) %
Extracurricular activities	218,101	203,368	14,733	7.24 %
Debt service	<u>23,231</u>	<u>23,232</u>	<u>(1)</u>	(0.00) %
Total	<u>\$ 10,345,649</u>	<u>\$ 10,149,322</u>	<u>\$ 196,327</u>	1.93 %

Bond Retirement Fund

The bond retirement fund had \$783,768 in revenues and \$803,576 in expenditures. During fiscal year 2008 the bond retirement fund's fund balance decreased \$19,808 from \$602,962 to \$583,154.

Classroom Facilities Fund

The classroom facilities fund had \$38,348 in revenues. During fiscal year 2008, the classroom facilities fund's fund balance increased \$38,348 from \$956,644 to \$994,992.

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 2008, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$9,851,343 and final budgeted revenues and other financing sources were \$10,832,612. Actual revenues and other financing sources for fiscal 2008 was \$10,375,642. This represents a \$456,970 decrease from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$11,064,804 were decreased to \$10,710,423 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2008 were unchanged from the final appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2008, the District had \$17,602,056 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 2008 balances compared to 2007:

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

	Governmental Activities	
	2008	2007
Land	\$ 299,298	\$ 299,298
Land improvements	549,751	599,314
Building and improvements	15,911,922	16,371,231
Furniture and equipment	562,042	684,165
Vehicles	279,043	371,606
Total	\$ 17,602,056	\$ 18,325,614

The overall decrease in capital assets of \$723,558 is due to depreciation expense of \$732,548 exceeding capital outlays of \$8,990 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, 2008, the District had \$8,977,046 in general obligation bonds and \$36,187 in capital lease obligations outstanding. Of this total, \$436,144 is due within one year and \$8,577,089 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
	2008	2007
General obligation bonds	\$ 8,977,046	\$ 9,320,238
Capital lease obligations	36,187	55,742
Total	\$ 9,013,233	\$ 9,375,980

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Current Financial Related Activities

Currently, the District's Five Year Forecast shows a positive fund balance through fiscal year 2011. 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 2010 in order for the District to obtain the necessary funds to meet its future operating expenses. Without the passage of a new operating levy, the District will be facing many challenges in the future.

Since the District relies on the State for approximately 59% of general operating revenues, one of the largest challenges facing the District is that of state funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither, "adequate" nor "equitable". On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. At this time, the District does not know yet what this biennium or the next biennium will hold, especially with the current economy. At this point, the District is not projecting any increase on future State funding.

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, 2008

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 4,829,947
Cash with fiscal agent	5,925
Receivables:	
Taxes	4,170,271
Accounts	2,749
Intergovernmental	150,165
Accrued interest	5,222
Materials and supplies inventory	28,570
Unamortized bond issue costs	117,549
Capital assets:	
Land	299,298
Depreciable capital assets, net	17,302,758
Capital assets, net.	<u>17,602,056</u>
 Total assets.	 <u>26,912,454</u>
Liabilities:	
Accounts payable.	32,525
Accrued wages and benefits	917,532
Pension obligation payable.	236,379
Intergovernmental payable	445,659
Unearned revenue	3,811,326
Matured interest payable	5,925
Accrued interest payable	59,677
Long-term liabilities:	
Due within one year.	630,132
Due within more than one year	9,246,908
 Total liabilities	 <u>15,386,063</u>
Net Assets:	
Invested in capital assets, net of related debt.	8,752,104
Restricted for:	
Capital projects	1,030,792
Debt service.	547,720
Classroom facilities maintenance	347,868
State funded programs	12,174
Federal funded programs	11,877
Student activities	14,040
Other purposes	537,739
Unrestricted.	<u>272,077</u>
 Total net assets	 <u>\$ 11,526,391</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 5,625,029	\$ 245,700	\$ 72,447	\$ 38,348	\$ (5,268,534)
Special	1,547,395	1,600	867,998	-	(677,797)
Vocational	46,880	-	11,232	-	(35,648)
Other	30,765	-	-	-	(30,765)
Support services:					
Pupil	402,614	-	128,260	-	(274,354)
Instructional staff	467,245	-	19,100	-	(448,145)
Board of education	29,211	-	-	-	(29,211)
Administration	911,963	55,485	8,505	-	(847,973)
Fiscal	331,055	-	662	-	(330,393)
Business	36,470	-	-	-	(36,470)
Operations and maintenance	1,204,545	-	31,578	-	(1,172,967)
Pupil transportation	1,048,639	-	53,047	7,855	(987,737)
Central	16,628	-	5,000	-	(11,628)
Operation of non-instructional services:					
Food service operations	389,379	217,393	157,861	-	(14,125)
Other non-instructional services	1,861	318	104,708	-	103,165
Extracurricular activities	378,463	100,460	2,697	-	(275,306)
Intergovernmental pass-through	88,888	-	-	-	(88,888)
Interest and fiscal charges	449,238	-	-	-	(449,238)
Total governmental activities	\$ 13,006,268	\$ 620,956	\$ 1,463,095	\$ 46,203	(10,876,014)
General Revenues:					
Property taxes levied for:					
General purposes					3,147,100
Special revenue					229,181
Debt service					682,088
Grants and entitlements not restricted to specific programs					
Investment earnings					6,241,002
Miscellaneous					146,477
					42,748
Total general revenues					10,488,596
Change in net assets					(387,418)
Net assets at beginning of year					11,913,809
Net assets at end of year					\$ 11,526,391

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	<u>General</u>	<u>Bond Retirement</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 2,474,470	\$ 550,581	\$ 994,992	\$ 794,842	\$ 4,814,885
Cash with fiscal agent	-	5,925	-	-	5,925
Receivables:					
Taxes	3,233,230	698,620	-	238,421	4,170,271
Accounts	2,017	-	-	732	2,749
Intergovernmental	-	-	-	150,165	150,165
Accrued interest	4,725	-	-	497	5,222
Interfund receivable	57,814	-	-	-	57,814
Materials and supplies inventory	17,870	-	-	10,700	28,570
Restricted assets:					
Equity in pooled cash and cash equivalents	15,062	-	-	-	15,062
Total assets	\$ 5,805,188	\$ 1,255,126	\$ 994,992	\$ 1,195,357	\$ 9,250,663
Liabilities:					
Accounts payable	\$ 30,452	\$ -	\$ -	\$ 2,073	\$ 32,525
Accrued wages and benefits	841,000	-	-	76,532	917,532
Compensated absences payable	106,811	-	-	8,709	115,520
Matured interest payable.	-	5,925	-	-	5,925
Pension obligation payable.	217,724	-	-	18,655	236,379
Intergovernmental payable.	365,771	-	-	79,888	445,659
Interfund payable.	-	-	-	57,814	57,814
Deferred revenue.	142,610	24,077	-	10,757	177,444
Unearned revenue	2,950,315	641,970	-	219,041	3,811,326
Total liabilities	4,654,683	671,972	-	473,469	5,800,124
Fund Balances:					
Reserved for encumbrances	252,559	-	-	43,493	296,052
Reserved for materials and supplies inventory.	17,870	-	-	10,700	28,570
Reserved for property tax unavailable for appropriation	140,305	32,573	-	11,053	183,931
Reserved for debt service	-	550,581	-	-	550,581
Reserved for school bus purchases	15,062	-	-	-	15,062
Unreserved:					
Designation for budget stabilization	511,677	-	-	-	511,677
Undesignated, reported in:					
General fund	213,032	-	-	-	213,032
Special revenue funds.	-	-	-	620,842	620,842
Capital projects funds.	-	-	994,992	35,800	1,030,792
Total fund balances	1,150,505	583,154	994,992	721,888	3,450,539
Total liabilities and fund balances	\$ 5,805,188	\$ 1,255,126	\$ 994,992	\$ 1,195,357	\$ 9,250,663

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, 2008

Total governmental fund balances		\$	3,450,539
<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.			17,602,056
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	175,014	
Intergovernmental revenue		<u>2,430</u>	
Total			177,444
Unamortized bond issuance costs are not recognized in the funds governmental activities in the statement of net assets.			117,549
Unamortized deferred charges on refundings are not recognized in the funds.			556,245
Unamortized premiums on bond issuance is not recognized in the funds.			(657,560)
Accrued interest payable is not due and payable in the current period and is therefore not reported in the funds.			(59,677)
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		8,977,046	
Capital lease obligation		36,187	
Compensated absences		<u>646,972</u>	
Total			<u>(9,660,205)</u>
Net assets of governmental activities		\$	<u>11,526,391</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, 2008

	<u>General</u>	<u>Bond Retirement</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Taxes	\$ 3,176,347	\$ 690,373	\$ -	\$ 231,612	\$ 4,098,332
Tuition.	199,754	-	-	-	199,754
Earnings on investments.	146,477	-	38,348	14,505	199,330
Charges for services.	-	-	-	217,393	217,393
Extracurricular.	-	-	-	155,945	155,945
Classroom materials and fees.	47,546	-	-	-	47,546
Other local revenues.	37,059	-	-	10,994	48,053
Intergovernmental - State.	6,698,725	93,395	-	192,387	6,984,507
Intergovernmental - Federal	-	-	-	705,523	705,523
Total revenue	<u>10,305,908</u>	<u>783,768</u>	<u>38,348</u>	<u>1,528,359</u>	<u>12,656,383</u>
Expenditures:					
Current:					
Instruction:					
Regular	5,102,337	-	-	247,021	5,349,358
Special.	1,153,525	-	-	397,773	1,551,298
Vocational.	47,026	-	-	-	47,026
Other.	30,765	-	-	-	30,765
Support services:					
Pupil.	242,053	-	-	128,297	370,350
Instructional staff	406,956	-	-	15,705	422,661
Board of education	29,211	-	-	-	29,211
Administration.	758,080	4,316	-	75,901	838,297
Fiscal	308,366	11,860	-	3,979	324,205
Business	23,661	-	-	-	23,661
Operations and maintenance.	1,040,846	-	-	100,626	1,141,472
Pupil transportation	949,863	-	-	-	949,863
Central.	11,628	-	-	5,000	16,628
Food service operations	-	-	-	334,709	334,709
Other non-instructional services.	-	-	-	10,462	10,462
Extracurricular activities.	218,101	-	-	104,117	322,218
Intergovernmental pass-through	-	-	-	88,888	88,888
Debt service:					
Principal retirement	19,555	435,000	-	-	454,555
Interest and fiscal charges	3,676	352,400	-	-	356,076
Total expenditures	<u>10,345,649</u>	<u>803,576</u>	<u>-</u>	<u>1,512,478</u>	<u>12,661,703</u>
Net change in fund balances	(39,741)	(19,808)	38,348	15,881	(5,320)
Fund balances at beginning of year.	1,204,464	602,962	956,644	709,721	3,473,791
Decrease in reserve for inventory.	(14,218)	-	-	(3,714)	(17,932)
Fund balances at end of year	<u>\$ 1,150,505</u>	<u>\$ 583,154</u>	<u>\$ 994,992</u>	<u>\$ 721,888</u>	<u>\$ 3,450,539</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, 2008

Net change in fund balances - total governmental funds	\$	(5,320)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 8,990	
Depreciation expense	<u>(732,548)</u>	
Total		(723,558)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		
		(17,932)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	(39,963)	
Intergovernmental	<u>2,430</u>	
Total		(37,533)
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.		
		454,555
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The following resulted in additional interest being reported on the statement of activities:		
Decrease in accrued interest payable	764	
Accreted interest on "capital appreciation" bonds	(91,808)	
Amortization of bond issuance costs	(6,915)	
Amortization on bond premiums	38,680	
Amortization of deferred charge on refunding	<u>(33,883)</u>	
Total		(93,162)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
		<u>35,532</u>
Change in net assets of governmental activities	\$	<u>(387,418)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 3,020,581	\$ 3,321,454	\$ 3,181,340	\$ (140,114)
Tuition.	189,660	208,552	199,754	(8,798)
Earnings on investments.	152,272	167,439	160,376	(7,063)
Classroom materials and fees	44,927	49,402	47,318	(2,084)
Other local revenues	32,449	35,681	34,176	(1,505)
Intergovernmental - State	<u>6,360,227</u>	<u>6,993,755</u>	<u>6,698,725</u>	<u>(295,030)</u>
Total revenue	<u>9,800,116</u>	<u>10,776,283</u>	<u>10,321,689</u>	<u>(454,594)</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,320,410	5,150,010	5,150,010	-
Special.	1,236,676	1,197,068	1,197,068	-
Vocational.	46,738	45,241	45,241	-
Other.	32,806	31,755	31,755	-
Support services:				
Pupil.	264,205	255,743	255,743	-
Instructional staff	467,015	452,058	452,058	-
Board of education	33,243	32,178	32,178	-
Administration.	829,610	803,039	803,039	-
Fiscal	320,804	310,529	310,529	-
Business	53,465	51,753	51,753	-
Operations and maintenance.	1,145,795	1,109,098	1,109,098	-
Pupil transportation	1,017,924	985,322	985,322	-
Central.	13,517	13,084	13,084	-
Extracurricular activities.	222,043	214,931	214,931	-
Facilities acquisition and construction.	<u>826</u>	<u>800</u>	<u>800</u>	<u>-</u>
Total expenditures	<u>11,005,077</u>	<u>10,652,609</u>	<u>10,652,609</u>	<u>-</u>
Excess of revenues under expenditures.	<u>(1,204,961)</u>	<u>123,674</u>	<u>(330,920)</u>	<u>(454,594)</u>
Other financing sources (uses):				
Advances in.	48,262	53,069	50,830	(2,239)
Advances (out)	(59,727)	(57,814)	(57,814)	-
Sale of capital assets.	1,775	1,952	1,870	(82)
Refund of prior year expenditure.	<u>1,190</u>	<u>1,308</u>	<u>1,253</u>	<u>(55)</u>
Total other financing sources (uses)	<u>(8,500)</u>	<u>(1,485)</u>	<u>(3,861)</u>	<u>(2,376)</u>
Net change in fund balance	(1,213,461)	122,189	(334,781)	(456,970)
Fund balance at beginning of year.	1,703,929	1,703,929	1,703,929	-
Prior year encumbrances appropriated	<u>531,752</u>	<u>531,752</u>	<u>531,752</u>	<u>-</u>
Fund balance at end of year	<u>\$ 1,022,220</u>	<u>\$ 2,357,870</u>	<u>\$ 1,900,900</u>	<u>\$ (456,970)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 29,483
Total assets.	\$ 29,483
Liabilities:	
Accounts payable.	\$ 884
Due to students	28,599
Total liabilities	\$ 29,483

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, 2008**

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 400th largest by total enrollment among the 896 public school districts and community schools in the state. The District's enrollment as of June 30, 2008 was 1,338. The District employed 93 certified employees and 58 classified 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).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

Stark Portage Area Computer Consortium

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

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

Portage Area School Consortium

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

INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

B. Fund Accounting

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

GOVERNMENTAL FUNDS

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

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

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

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

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

PROPRIETARY FUNDS

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

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

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

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

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

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

D. Basis of Accounting

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2008, but which were levied to finance fiscal year 2009 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2008 are recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement 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 2008 is as follows:

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

2. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final amended certificates issued for fiscal year 2008.
3. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
4. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
6. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2008, 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 2008, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). Investments in STAR Ohio are reported at fair value, which is based on quoted market prices.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

The District has invested funds in STAR Ohio during fiscal year 2008. 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 shares price which is the price the investment could be sold for on June 30, 2008.

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 2008 amounted to \$146,477, which includes \$45,857 assigned from other funds.

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

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

G. Inventory

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded 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 2008, the District maintained a capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

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

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

I. Interfund Balances

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

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2008, 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 sick leave payments has been calculated using pay rates in effect at June 30, 2008, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

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

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

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

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

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

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Fund Balance Reserves and Designations

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

N. Net Assets

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

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

O. Estimates

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

P. Restricted Assets

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

Q. Interfund Activity

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2008.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2008, the District has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the District; however, certain disclosures related to postemployment benefits (see Note 13) have been modified to conform to the new reporting requirements.

GASB Statement No. 48 establishes criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the District.

GASB Statement No. 50 establishes standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2008 included the following individual fund deficits:

<u>Nonmajor governmental funds</u>	<u>Deficit</u>
Entry Year Programs	\$ 2,400
Title I Disadvantaged Children	516
Improving Teacher Quality	275
Miscellaneous Federal Grants	6

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal 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 Treasury Asset Reserve of Ohio (STAR Ohio) investment pool;
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Protection of the 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, 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, 2008, the carrying amount of all District deposits was \$1,901,133. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2008, \$200,000 of the District’s bank balance of \$2,099,597 was covered by the Federal Deposit Insurance Corporation, while \$1,899,597 was exposed to custodial risk as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the District’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

C. Investments

As of June 30, 2008, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</u> 6 months or less
STAR Ohio	\$ 2,962,072	\$ 2,962,072

The weighted average maturity of investments is one day.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2008:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	<u>\$ 2,962,072</u>	<u>100.00%</u>

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

The following is a reconciliation of cash and investments as reported in the note disclosure above to cash and investments as reported on the statement of net assets as of June 30, 2008:

<u>Cash and investments per note disclosure</u>	
Carrying amount of deposits	\$ 1,901,133
Investments	2,962,072
Cash on hand	<u>2,150</u>
Total	<u>\$ 4,865,355</u>
<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 4,835,872
Agency fund	<u>29,483</u>
Total	<u>\$ 4,865,355</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 5 - INTERFUND TRANSACTIONS

At June 30, 2008, interfund balances consisted of the following interfund loans receivable and payable, as reported in the fund financial statements:

<u>Interfund loans receivable reported in the general fund:</u>	<u>Amount</u>
Nonmajor governmental funds	\$ 57,814

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, 2008 are reported on the statement of net assets.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar year 2008 represents collections of calendar year 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed value listed as of January 1, 2007, 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 year 2008 represents collections of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien December 31, 2006, were levied after April 1, 2007 and are collected in 2008 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 year 2008 (other than public utility property) represents the collection of 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after April 1, 2007, on the value as of December 31, 2007. Tangible personal property tax is being phased out. For 2007, tangible personal property was assessed at 12.50% for property, including inventory. This percentage was reduced to 6.25% for 2008 and will be reduced to zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 6 - PROPERTY TAXES - (Continued)

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2008-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Portage County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2008, are available to finance fiscal year 2008 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, 2008 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

The amounts available as an advance at June 30, 2008 were \$140,305 in the general fund, \$32,573 in the bond retirement debt service fund, \$8,350 in the emergency levy special revenue fund (a nonmajor governmental fund), and \$2,703 in the classroom facilities maintenance special revenue fund (a nonmajor governmental fund). These amounts have been recorded as revenue. The amounts available as an advance at June 30, 2007 were \$145,298 in the general fund, \$35,248 in the bond retirement debt service fund, \$8,740 in the emergency levy special revenue fund, and \$2,798 in the classroom facilities maintenance special revenue fund.

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

The assessed values upon which the fiscal year 2008 taxes were collected are:

	2007 Second Half Collections		2008 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 152,347,260	93.86	\$ 154,168,440	94.75
Public utility personal	5,267,960	3.25	4,243,170	2.61
Tangible personal property	<u>4,705,536</u>	<u>2.89</u>	<u>4,287,076</u>	<u>2.64</u>
Total	<u>\$ 162,320,756</u>	<u>100.00</u>	<u>\$ 162,698,686</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
General operations	\$ 54.31		\$ 54.31	
Bonded debt	4.88		4.72	

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 7 - RECEIVABLES

Receivables at June 30, 2008 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	\$ 4,170,271
Accounts	2,749
Intergovernmental	150,165
Accrued interest	<u>5,222</u>
Total	<u>\$ 4,328,407</u>

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

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008 was as follows:

<u>Governmental activities</u>	<u>Balance 06/30/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 06/30/08</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 299,298	\$ -	\$ -	\$ 299,298
<i>Total capital assets, not being depreciated</i>	<u>299,298</u>	<u>-</u>	<u>-</u>	<u>299,298</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	882,232	-	-	882,232
Buildings and improvements	20,347,013	8,990	-	20,356,003
Equipment and furniture	1,538,909	-	-	1,538,909
Vehicles	1,186,907	-	(22,479)	1,164,428
<i>Total capital assets, being depreciated</i>	<u>23,955,061</u>	<u>8,990</u>	<u>(22,479)</u>	<u>23,941,572</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(282,918)	(49,563)	-	(332,481)
Buildings and improvements	(3,975,782)	(468,299)	-	(4,444,081)
Equipment and furniture	(854,744)	(122,123)	-	(976,867)
Vehicles	(815,301)	(92,563)	22,479	(885,385)
<i>Total accumulated depreciation</i>	<u>(5,928,745)</u>	<u>(732,548)</u>	<u>22,479</u>	<u>(6,638,814)</u>
Total capital assets, net	<u>\$ 18,325,614</u>	<u>\$ (723,558)</u>	<u>\$ -</u>	<u>\$ 17,602,056</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 301,427
Special	15,173
<u>Support services:</u>	
Pupil	9,788
Instructional staff	36,208
Administration	74,210
Fiscal	4,105
Business	12,809
Operations and maintenance	77,114
Pupil transportation	94,420
Extracurricular activities	56,245
Food service operations	<u>51,049</u>
Total depreciation expense	<u><u>\$ 732,548</u></u>

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

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

Capital assets consisting of copiers acquired by lease have been capitalized in the amount of \$95,846. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Accumulated depreciation as of June 30, 2008 was \$41,934, leaving a current book value of \$53,912. Principal payments in fiscal year 2008 totaled \$19,555 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, 2008:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2009	\$ 23,231
2010	<u>15,489</u>
Total	38,720
Less: amount representing interest	<u>(2,533)</u>
Present value	<u><u>\$ 36,187</u></u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 10 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2008, the following changes occurred in governmental activities long-term obligations. Compensated absences will be paid out of the fund from which the employee is paid, primarily the general fund.

	<u>Balance at June 30, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2008</u>	<u>Amount Due in One Year</u>
<u>General obligation bonds:</u>					
Series 2001 construction:					
Current interest	\$ 1,435,000	\$ -	\$ -	\$ 1,435,000	\$ 320,000
Capital appreciation	176,091	-	(176,091)	-	-
Accreted interest	151,719	17,190	(168,909)	-	-
Series 2006 refunding:					
Current interest	7,320,000	-	(90,000)	7,230,000	95,000
Capital appreciation	164,999	-	-	164,999	-
Accreted interest	72,429	74,618	-	147,047	-
<u>Other long-term obligations:</u>					
Capital lease obligation	55,742	-	(19,555)	36,187	21,144
Compensated absences	785,406	72,888	(95,802)	762,492	193,988
Total	<u>\$ 10,161,386</u>	<u>\$ 164,696</u>	<u>\$ (550,357)</u>	9,775,725	<u>\$ 630,132</u>
Less: Unamortized deferred charge on refunding				(556,245)	
Add: Unamortized premium on refunding				<u>657,560</u>	
Total on statement of net assets				<u>\$ 9,877,040</u>	

B. General Obligation Bonds - Series 2001 Construction

On May 3, 2001, the District issued general obligation bonds to provide funds for the construction and renovation of the high school to house grades K-12 and the abandonment and demolition of the current elementary and middle schools (hereinafter called "Construction Project"). These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund. The source of payment is derived from a current 7.45 mils 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, 2008, the total cost of the Construction Project was \$25,522,356, of which the OSFC paid \$15,087,193.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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

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

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

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

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

C. General Obligation Bonds - Series 2006 Refunding

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

The refunding issue is comprised of both current interest bonds, par value \$7,480,000, and capital appreciation bonds, par value \$164,999. The capital appreciation bonds mature December 1, 2012 and December 1, 2013 at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2008 was \$164,999. Total accreted interest of \$147,047 has been included in the statement of activities.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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

Fiscal Year Ending June 30	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 95,000	\$ 285,563	\$ 380,563	\$ -	\$ -	\$ -
2010	95,000	282,238	377,238	-	-	-
2011	100,000	278,825	378,825	-	-	-
2012	105,000	275,238	380,238	-	-	-
2013 - 2017	1,620,000	1,271,400	2,891,400	164,999	1,020,001	1,185,000
2018 - 2022	3,090,000	743,400	3,833,400	-	-	-
2023 - 2025	2,125,000	129,700	2,254,700	-	-	-
Total	<u>\$ 7,230,000</u>	<u>\$ 3,266,364</u>	<u>\$ 10,496,364</u>	<u>\$ 164,999</u>	<u>\$ 1,020,001</u>	<u>\$ 1,185,000</u>

D. Legal Debt Margins

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District.

The assessed valuation used in determining the District's legal debt margins has been modified by House Bill 530, which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculations excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations.

The effects of these debt limitations at June 30, 2008 are a legal voted debt margin of \$5,628,315 (including available funds of \$583,154), a legal unvoted debt margin of \$154,168, and a legal energy conservation debt margin of \$1,387,516.

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 11 - RISK MANAGEMENT - (Continued)

B. Workers' Compensation

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

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

NOTE 12 - PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007, and 2006, were \$129,344, \$137,405, and \$132,158, respectively; 48.26 percent has been contributed for fiscal year 2008, and 100 percent for fiscal years 2007 and 2006.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 12 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at 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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2008, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006, were \$643,178, \$642,710, and \$629,611, respectively; 84.63 percent has been contributed for fiscal year 2008, and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$1,216 made by the District and \$6,342 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2008, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006, were \$86,377, \$72,457, and \$71,630, respectively; 48.26 percent has been contributed for fiscal year 2008, and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2008, this actuarially required allocation was 0.66 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006, were \$9,320, \$9,344, and \$10,519, respectively; 48.26 percent has been contributed for fiscal year 2008, and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006, were \$49,475, \$49,439, and \$48,432, respectively; 84.63 percent has been contributed for fiscal year 2008, and 100 percent for fiscal years 2007 and 2006.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

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

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ (334,781)
Net adjustment for revenue accruals	(15,781)
Net adjustment for expenditure accruals	(276,450)
Net adjustment for other financing sources/uses	3,861
Encumbrances	583,410
GAAP basis	\$ (39,741)

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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.

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, 2008, the reserve activity was as follows:

	Instructional <u>Materials</u>	Capital <u>Maintenance</u>	School Bus <u>Purchases</u>	Budget <u>Stabilization</u>
Set-aside balance at June 30, 2007	\$ (134,199)	\$ (232,325)	\$ 7,207	\$ 507,799
Current year set-aside requirement	202,450	202,450	7,855	3,878
Current year offsets	-	(875,743)	-	-
Current year qualifying expenditures	<u>(130,752)</u>	<u>(19,334)</u>	<u>-</u>	<u>-</u>
Total	<u>\$ (62,501)</u>	<u>\$ (924,952)</u>	<u>\$ 15,062</u>	<u>\$ 511,677</u>
Balance carried forward to FY 2009	<u>\$ (62,501)</u>	<u>\$ (29,875)</u>	<u>\$ 15,062</u>	<u>\$ 511,677</u>

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

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

A schedule of the governmental fund restricted assets at June 30, 2008 follows:

Amount restricted for school bus purchases	<u>\$ 15,062</u>
Total restricted assets	<u>\$ 15,062</u>

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**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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Waterloo Local School District (the District), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 13, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

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

Compliance and Other Matters

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

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

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

February 13, 2009

**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

To the Board of Education:

Compliance

We have audited the compliance of the Waterloo Local School District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. The District's major federal program is 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 its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

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

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

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

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

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

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

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

February 13, 2009

Waterloo Local School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2008

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Receipts	Disbursements
<u>U.S. Department of Agriculture</u>				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
National School Lunch Program	10.555	049247-LLP4-2007	\$13,021	\$13,021
National School Lunch Program	10.555	049247-LLP4-2008	109,366	109,366
Total National School Lunch Program			<u>122,387</u>	<u>122,387</u>
School Breakfast Program	10.553	049247-05PU-2007	1,331	1,331
School Breakfast Program	10.553	049247-05PU-2008	8,832	8,832
Total School Breakfast Program			<u>10,163</u>	<u>10,163</u>
Total Child Nutrition Cluster			<u>132,550</u>	<u>132,550</u>
Food Donation	10.550	- - -	51,071	51,071
Total U.S. Department of Agriculture			<u>183,621</u>	<u>183,621</u>
<u>U.S. Department of Education</u>				
<i>Passed Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	84.010	049247-C1S1-2007	31,701	26,091
Title I Grants to Local Educational Agencies	84.010	049247-C1S1-2008	153,618	144,010
Total Title I Grants to Local Educational Agencies			<u>185,319</u>	<u>170,101</u>
Special Education Cluster:				
Special Education-Grants to States	84.027	049247-6BSF-2007	102,853	60,073
Special Education-Grants to States	84.027	049247-6BSF-2008	211,929	231,359
Total Special Education - Grants to States			<u>314,782</u>	<u>291,432</u>
Special Education-Preschool Grants	84.173	049247-PGS1-2008	3,696	3,696
Total Special Education Cluster			<u>318,478</u>	<u>295,128</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	049247-DRS1-2008	5,116	2,542
Total Safe and Drug-Free Schools and Communities			<u>5,116</u>	<u>2,542</u>
State Grants for Innovative Programs	84.298	049247-C2S1-2007	0	213
State Grants for Innovative Programs	84.298	049247-C2S1-2008	3,692	2,182
Total State Grants for Innovative Programs			<u>3,692</u>	<u>2,395</u>
Education Technology State Grants	84.318	049247-TJS1-2008	1,478	1,728
Improving Teacher Quality State Grants	84.367	049247-TRS1-2007	0	473
Improving Teacher Quality State Grants	84.367	049247-TRS1-2008	60,664	60,664
Total Improving Teacher Quality State Grants			<u>60,664</u>	<u>61,137</u>
Total U.S. Department of Education			<u>574,747</u>	<u>533,031</u>
Total Federal Assistance			<u>\$758,368</u>	<u>\$716,652</u>

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

WATERLOO LOCAL SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

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

WATERLOO LOCAL SCHOOL DISTRICT

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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 significant deficiencies 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 significant deficiencies 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, 2008
(CONTINUED)**

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

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

None

3. FINDINGS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
Auditor of State

**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 12, 2009**