



Dave Yost • Auditor of State

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**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Waterloo Local School District, Portage County, Ohio (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Waterloo Local School District, Portage County, Ohio, as of June 30, 2016, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

February 8, 2017

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

The management's discussion and analysis of the Waterloo Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2016. 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 fiscal year 2016 are as follows:

- In total, net position of governmental activities increased \$932,333 which represents a 18.44% increase from 2015.
- General revenues accounted for \$11,440,700 in revenue or 82.85% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,367,555 or 17.15% of total revenues of \$13,808,255.
- The District had \$12,875,922 in expenses related to governmental activities; \$2,367,555 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$11,440,700 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and bond retirement fund. The general fund had \$11,736,507 in revenues and \$11,008,823 in expenditures and other financing uses. The general fund had an increase in the reserve for inventory for 2016 of \$5,691. During fiscal year 2016, the general fund's fund balance increased \$727,684 from a balance of \$1,219,123 to \$1,952,498.
- The bond retirement fund had \$6,987,473 in revenues and other financing sources and \$6,808,260 in expenditures and other financing uses. During fiscal year 2016, the bond retirement fund's fund balance increased \$179,213 from \$595,750 to \$774,963.

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 position* 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 and bond retirement 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, 2016
(UNAUDITED)

Reporting the District as a Whole

Statement of Net Position 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 2016?" The statement of net position and the statement of activities answer this question. These statements include *all assets, deferred outflows, liabilities, deferred inflows, 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 position* and changes in that position. This change in net position 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 position 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 interest and fiscal charges.

The District's statement of net position and statement of activities can be found on pages 17-18 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 12. 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 and bond retirement 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* that 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 position 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 19-23 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 assets and liabilities on page 24. 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, 2016
(UNAUDITED)**

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-58 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net pension liability. The required supplementary information can be found on pages 60 through 66 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

The District as a Whole

The table below provides a summary of the District's net position at June 30, 2016 and June 30, 2015.

	Net Position	
	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>
<u>Assets</u>		
Current and other assets	\$ 8,981,561	\$ 8,439,585
Capital assets, net	<u>13,475,260</u>	<u>14,049,104</u>
Total assets	<u>22,456,821</u>	<u>22,488,689</u>
<u>Deferred Outflows of Resources</u>		
Unamortized deferred charges on debt refunding	20,319	319,064
Pension	<u>1,771,466</u>	<u>968,776</u>
Total deferred outflows of resources	<u>1,791,785</u>	<u>1,287,840</u>
<u>Liabilities</u>		
Current liabilities	1,211,386	1,153,336
Long-term liabilities:		
Due within one year	746,550	670,511
Due in more than one year:		
Net pension liability	15,011,697	12,912,546
Other amounts	<u>6,857,747</u>	<u>7,679,178</u>
Total liabilities	<u>23,827,380</u>	<u>22,415,571</u>
<u>Deferred Inflows of Resources</u>		
Property taxes levied for next year	3,612,921	4,081,305
Pensions	<u>931,669</u>	<u>2,335,350</u>
Total deferred inflows of resources	<u>4,544,590</u>	<u>6,416,655</u>
<u>Net Position</u>		
Net investment in capital assets	7,512,845	7,664,652
Restricted	1,767,137	1,531,294
Unrestricted (deficit)	<u>(13,403,346)</u>	<u>(14,251,643)</u>
Total net position (deficit)	<u>\$ (4,123,364)</u>	<u>\$ (5,055,697)</u>

During a previous fiscal year, the District adopted Governmental Accounting Standards Board (GASB) Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," and GASB Statement 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

GASB standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the standards required by GASB 68, the net pension liability equals the District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service.
2. Minus plan assets available to pay these benefits.

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the District's liabilities and deferred inflows exceeded assets and deferred outflows by \$4,123,364.

At year-end, capital assets represented 60.00% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. The District's net investment in capital assets at

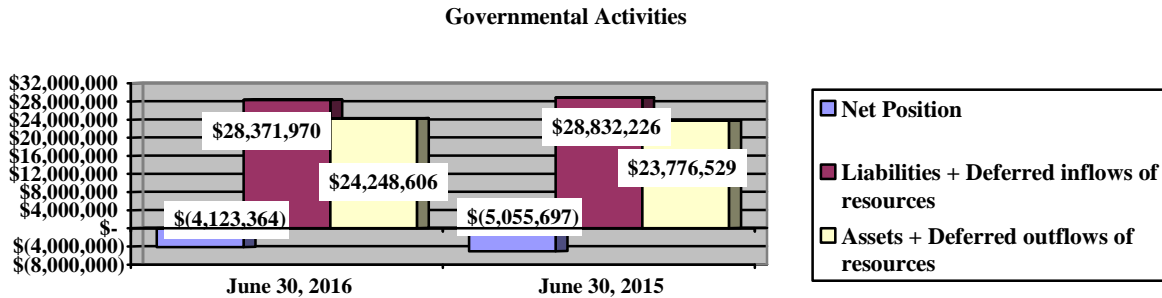
**WATERLOO LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

June 30, 2016, was \$7,512,845. 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 position, \$1,767,137, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position is a deficit of \$13,403,346.

The graph below presents the District's governmental activities assets, deferred outflows, liabilities, deferred inflows and net position at June 30, 2016 and June 30, 2015.



The table below shows the changes in net position for governmental activities for fiscal years 2016 and 2015.

Change in Net Position

	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,016,408	\$ 971,209
Operating grants and contributions	1,349,805	1,451,062
Capital grants and contributions	1,342	2,275
General revenues:		
Property taxes	5,141,720	4,154,560
Grants and entitlements	6,244,513	6,109,380
Investment earnings	5,818	6,595
Other	<u>48,649</u>	<u>43,359</u>
Total revenues	<u>13,808,255</u>	<u>12,738,440</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

Change in Net Position (Continued)

	<u>Governmental Activities 2016</u>	<u>Governmental Activities 2015</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 5,778,514	\$ 5,704,221
Special	1,841,700	1,977,756
Other	22,748	22,869
Support services:		
Pupil	624,240	587,471
Instructional staff	381,826	214,578
Board of education	30,928	36,775
Administration	881,763	958,716
Fiscal	401,552	333,201
Business	28,611	21,255
Operations and maintenance	953,062	1,159,541
Pupil transportation	703,288	843,001
Central	51,258	73,893
Food service operations	383,542	411,198
Other non-instructional services	101,143	59,247
Extracurricular activities	383,885	362,836
Interest and fiscal charges	<u>307,862</u>	<u>296,413</u>
Total expenses	<u>12,875,922</u>	<u>13,062,971</u>
Change in net position	932,333	(324,531)
Net position at beginning of year	<u>(5,055,697)</u>	<u>(4,731,166)</u>
Net position at end of year	<u>\$ (4,123,364)</u>	<u>\$ (5,055,697)</u>

Governmental Activities

Net position of the District's governmental activities increased \$932,333. Total governmental expenses of \$12,875,922 were partially offset by program revenues of \$2,367,555 and general revenues of \$11,440,700. Program revenues supported 18.39% 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 82.46% of total governmental revenue. The increase in property taxes revenue is mainly the result of property tax collections from an emergency tax levy beginning in fiscal year 2014 and variances in the amount of taxes available as an advance to the District at year-end. This amount is recorded as revenue and can vary from year to year based on the date the tax bills are sent.

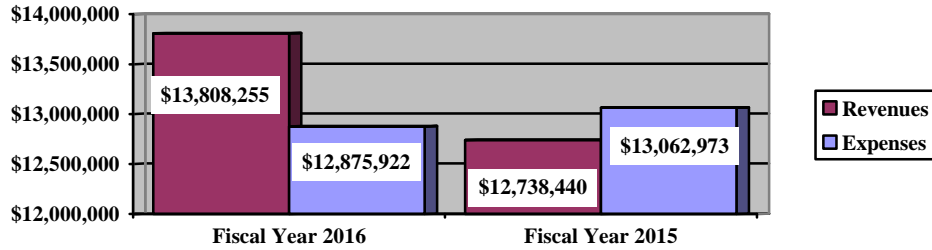
The largest expense of the District is for instructional programs. Instruction expenses totaled \$7,642,962 or 59.36% of total governmental expenses for fiscal year 2016.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

The graph below presents the District's governmental activities revenues and expenses for fiscal years 2016 and 2015.

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 for fiscal years 2016 and 2015. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

Governmental Activities

	Total Cost of Services <u>2016</u>	Net Cost of Services <u>2016</u>	Total Cost of Services <u>2015</u>	Net Cost of Services <u>2015</u>
Program expenses				
Instruction:				
Regular	\$ 5,778,514	\$ 5,162,018	\$ 5,704,221	\$ 5,106,498
Special	1,841,700	916,443	1,977,756	958,761
Other	22,748	21,319	22,869	18,525
Support services:				
Pupil	624,240	587,588	587,471	555,135
Instructional staff	381,826	376,426	214,578	207,428
Board of education	30,928	30,928	36,775	36,775
Administration	881,763	825,482	958,716	895,914
Fiscal	401,552	401,552	333,201	333,201
Business	28,611	28,611	21,255	21,255
Operations and maintenance	953,062	928,141	1,159,541	1,121,552
Pupil transportation	703,288	635,315	843,001	782,289
Central	51,258	51,258	73,893	73,893
Food service operations	383,542	(8,878)	411,198	33,312
Other non-instructional services	101,143	17,674	59,247	(17,199)
Extracurricular activities	383,885	226,628	362,836	214,673
Interest and fiscal charges	<u>307,862</u>	<u>307,862</u>	<u>296,413</u>	<u>296,413</u>
Total expenses	<u>\$ 12,875,922</u>	<u>\$ 10,508,367</u>	<u>\$ 13,062,971</u>	<u>\$ 10,638,425</u>

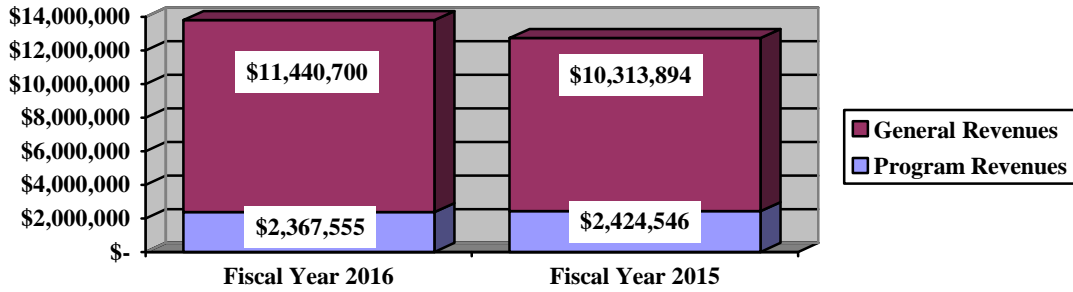
The dependence upon tax and other general revenues for governmental activities is apparent, as 79.81% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 81.61%. The District's taxpayers, as a whole, are by far the primary support for District's students.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

The graph below presents the District's governmental activities revenue for fiscal year 2016 and 2015.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$3,910,866, which is higher than last year's total of \$2,839,644. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2016 and 2015.

	<u>Fund Balance</u> <u>June 30, 2016</u>	<u>Fund Balance</u> <u>June 30, 2015</u>	<u>Change</u>	<u>Percentage</u> <u>Change</u>
General	\$ 1,952,498	\$ 1,219,123	\$ 733,375	60.16 %
Bond Retirement	774,963	595,750	179,213	30.08 %
Other Governmental	<u>1,183,405</u>	<u>1,024,771</u>	<u>158,634</u>	15.48 %
Total	<u>\$ 3,910,866</u>	<u>\$ 2,839,644</u>	<u>\$ 1,071,222</u>	37.72 %

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

General Fund

The District's general fund balance increased \$727,684. The table that follows assists in illustrating the financial activities and fund balance of the general fund. The increase in property taxes revenue is mainly the result of variances in the amount of taxes available as an advance to the District at year-end and an emergency levy. This amount is recorded as revenue and can vary from year to year based on the date the tax bills are sent. Tuition decreased due to a decrease in open enrollment receipts. Other revenues increased 36.74% primarily due to an increase in revenues relating to contracted services. Instruction decreased primarily due to decreases in regular and special instruction expenditures. Support services decreased primarily due to decreases in operations and maintenance and administration expenditures. All other revenues and expenditures were comparable to 2015 amounts.

	<u>2016</u> <u>Amount</u>	<u>2015</u> <u>Amount</u>	<u>Change</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 4,207,154	\$ 3,368,329	\$ 838,825	24.90 %
Tuition	491,390	537,033	(45,643)	(8.50) %
Earnings on investments	5,317	5,707	(390)	(6.83) %
Intergovernmental	6,736,232	6,617,193	119,039	1.80 %
Other revenues	<u>296,414</u>	<u>216,769</u>	<u>79,645</u>	36.74 %
Total	<u>\$ 11,736,507</u>	<u>\$ 10,745,031</u>	<u>\$ 991,476</u>	9.23 %
<u>Expenditures</u>				
Instruction	\$ 6,974,830	\$ 7,125,679	\$ (150,849)	(2.12) %
Support services	3,818,051	3,868,828	(50,777)	(1.31) %
Extracurricular activities	194,854	191,610	3,244	1.69 %
Facilities acquisition and construction	<u>-</u>	<u>29,654</u>	<u>(29,654)</u>	100.00 %
Total	<u>\$ 10,987,735</u>	<u>\$ 11,215,771</u>	<u>\$ (228,036)</u>	(2.03) %

Bond Retirement Fund

The bond retirement fund had \$6,987,473 in revenues and other financing sources and \$6,808,260 in expenditures and other financing uses. During fiscal year 2016, the bond retirement fund's fund balance increased \$179,213 from \$595,750 to \$774,963.

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 year 2016, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$10,005,946 and final budgeted revenues and other financing sources were \$10,407,704. Actual revenues and other financing sources for fiscal year 2016 were \$10,491,510. This represents an increase of \$83,806 from final budgeted revenues and other financing sources.

General fund original appropriations (appropriated expenditures including other financing uses) of \$11,142,724 were increased to \$11,410,434 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2016 of \$11,400,109 were \$10,325 less than final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2016, the District had \$13,475,260 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 June 30, 2016 balances compared to June 30, 2015:

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

	Governmental Activities	
	2016	2015
Land	\$ 299,298	\$ 299,298
Land improvements	287,050	346,524
Building and improvements	12,225,059	12,698,126
Furniture and equipment	144,806	147,649
Vehicles	519,047	557,507
Total	\$ 13,475,260	\$ 14,049,104

The overall decrease in capital assets of \$573,844 is due to depreciation expense of \$695,922 exceeding capital outlays of \$122,078 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, 2016, the District had \$5,796,825 in general obligation bonds and \$869,000 in energy conservation notes outstanding. Of this total, \$703,825 is due within one year and \$5,962,000 is due in more than one year. The following table summarizes the bonds and notes outstanding.

Outstanding Debt, at Year - End

	Governmental Activities	Governmental Activities
	2016	2015
General obligation bonds	\$ 5,796,825	\$ 6,315,000
Energy conservation notes	869,000	948,000
Total	\$ 6,665,825	\$ 7,263,000

See Note 9 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, 2016
(UNAUDITED)**

Current Financial Related Activities

Currently, the District's Five Year Forecast shows a positive fund balance through fiscal year 2018. The District relies heavily upon grants, entitlements and property taxes. Since future grant and entitlement revenue is uncertain, the reliance upon local taxes remains very important.

Since the District relies on the State for roughly 52.70% of general operating revenues, one of the largest challenges facing the District is that of state funding. State funding has had an unpredictable past. With a new funding methodology and the current economic environment, the District is hoping to avoid further State funding reductions. If this does occur, it will have a drastic effect on the District's overall financial position.

In conclusion, the District's system of budgeting and internal controls has been well regarded. The last time voters passed a new operating levy was February 5, 2013. 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 citizens, taxpayers, 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.

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

STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 3,594,601
Cash with fiscal agent	5,925
Receivables:	
Property taxes	4,802,711
Accounts.	418
Accrued interest	2,419
Intergovernmental	527,211
Materials and supplies inventory.	27,686
Inventory held for resale.	20,590
Capital assets:	
Nondepreciable capital assets	299,298
Depreciable capital assets, net.	13,175,962
Capital assets, net	13,475,260
Total assets.	22,456,821
 Deferred outflows of resources:	
Unamortized deferred charges on debt refunding	20,319
Pension - STRS	1,498,533
Pension - SERS	272,933
Total deferred outflows of resources	1,791,785
 Liabilities:	
Accounts payable.	53,702
Accrued wages and benefits payable	951,493
Intergovernmental payable	46,562
Pension and postemployment benefits payable.	146,923
Accrued interest payable	12,706
Long-term liabilities:	
Due within one year.	746,550
Due in more than one year:	
Net pension liability	15,011,697
Other amounts due in more than one year	6,857,747
Total liabilities	23,827,380
 Deferred inflows of resources:	
Property taxes levied for the next fiscal year.	3,612,921
Pension - STRS.	846,051
Pension - SERS.	85,618
Total deferred inflows of resources	4,544,590
 Net position:	
Net investment in capital assets	7,512,845
Restricted for:	
Capital projects	64
Classroom facilities maintenance	628,976
Debt service.	775,976
Federally funded programs	14,554
Student activities	14,521
Other purposes	333,046
Unrestricted (deficit)	(13,403,346)
Total net position (deficit).	\$ (4,123,364)

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, 2016

		Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental activities:						
Instruction:						
Regular	\$ 5,778,514	\$ 595,982	\$ 20,514	\$ -		\$ (5,162,018)
Special	1,841,700	20,239	905,018	-		(916,443)
Other	22,748	-	1,429	-		(21,319)
Support services:						
Pupil.	624,240	-	36,652	-		(587,588)
Instructional staff	381,826	-	5,400	-		(376,426)
Board of education	30,928	-	-	-		(30,928)
Administration.	881,763	56,281	-	-		(825,482)
Fiscal.	401,552	-	-	-		(401,552)
Business.	28,611	-	-	-		(28,611)
Operations and maintenance	953,062	19,619	5,302	-		(928,141)
Pupil transportation.	703,288	-	66,631	1,342		(635,315)
Central	51,258	-	-	-		(51,258)
Operation of non-instructional services:						
Other non-instructional services	101,143	-	83,469	-		(17,674)
Food service operations	383,542	169,205	223,215	-		8,878
Extracurricular activities.	383,885	155,082	2,175	-		(226,628)
Interest and fiscal charges	307,862	-	-	-		(307,862)
Total governmental activities	\$ 12,875,922	\$ 1,016,408	\$ 1,349,805	\$ 1,342		(10,508,367)
General revenues:						
Property taxes levied for:						
General purposes						4,195,330
Debt service.						883,018
Classroom facilities.						63,372
Grants and entitlements not restricted to specific programs						6,244,513
Investment earnings						5,818
Miscellaneous						48,649
Total general revenues						11,440,700
Change in net position (deficit)						932,333
Net position (deficit) at beginning of year						(5,055,697)
Net position (deficit) at end of year						\$ (4,123,364)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents.	\$ 1,742,951	\$ 621,434	\$ 1,230,216	\$ 3,594,601
Cash with fiscal agent.	-	5,925	-	5,925
Receivables:				
Property taxes.	3,917,064	826,690	58,957	4,802,711
Accounts	418	-	-	418
Accrued interest	1,832	-	587	2,419
Interfund loans	462,591	-	-	462,591
Intergovernmental.	53,006	-	474,205	527,211
Materials and supplies inventory.	27,686	-	-	27,686
Inventory held for resale.	-	-	20,590	20,590
Total assets	<u>\$ 6,205,548</u>	<u>\$ 1,454,049</u>	<u>\$ 1,784,555</u>	<u>\$ 9,444,152</u>
Liabilities:				
Accounts payable	\$ 26,183	\$ -	\$ 27,519	\$ 53,702
Accrued wages and benefits payable	900,880	-	50,613	951,493
Intergovernmental payable	45,945	-	617	46,562
Pension and postemployment benefits payable	139,147	-	7,776	146,923
Interfund loans payable.	-	-	462,591	462,591
Accrued interest payable	-	5,925	-	5,925
Total liabilities.	<u>1,112,155</u>	<u>5,925</u>	<u>549,116</u>	<u>1,667,196</u>
Deferred inflows of resources:				
Property taxes levied for the next fiscal year.	2,925,509	643,442	43,970	3,612,921
Delinquent property tax revenue not available.	161,773	29,719	2,444	193,936
Intergovernmental revenue not available.	52,853	-	5,377	58,230
Accrued interest not available.	760	-	243	1,003
Total deferred inflows of resources	<u>3,140,895</u>	<u>673,161</u>	<u>52,034</u>	<u>3,866,090</u>
Fund balances:				
Nonspendable:				
Materials and supplies inventory.	27,686	-	-	27,686
Restricted:				
Debt service	-	774,963	-	774,963
Classroom facilities maintenance	-	-	626,532	626,532
Food service operations	-	-	351,790	351,790
Non-public schools	-	-	9,502	9,502
Special education	-	-	1	1
Targeted academic assistance	-	-	9,177	9,177
Extracurricular.	-	-	14,521	14,521
Committed:				
Capital improvements	-	-	171,882	171,882
Underground storage tank	11,000	-	-	11,000
Assigned:				
Student instruction	506,387	-	-	506,387
Student and staff support.	348,255	-	-	348,255
Extracurricular activities	1,000	-	-	1,000
Subsequent year's appropriations	269,717	-	-	269,717
Unassigned	788,453	-	-	788,453
Total fund balances	<u>1,952,498</u>	<u>774,963</u>	<u>1,183,405</u>	<u>3,910,866</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 6,205,548</u>	<u>\$ 1,454,049</u>	<u>\$ 1,784,555</u>	<u>\$ 9,444,152</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2016

Total governmental fund balances		\$	3,910,866
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			13,475,260
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Property taxes receivable	\$	193,936	
Accrued interest receivable		1,003	
Intergovernmental receivable		58,230	
Total			253,169
Unamortized premiums on bonds issued are not recognized in the funds.			(207,834)
Unamortized amounts on refundings are not recognized in the funds.			20,319
Unamortized discounts on note issuance are not recognized in the funds.			11,110
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(6,781)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:			
Deferred outflows of resources - pension		1,771,466	
Deferred inflows of resources - pension		(931,669)	
Net pension liability		(15,011,697)	
Total			(14,171,900)
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		(5,796,825)	
Energy conservation note		(869,000)	
Compensated absences		(741,748)	
Total			(7,407,573)
Net position of governmental activities		\$	(4,123,364)

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, 2016

	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Property taxes	\$ 4,207,154	\$ 885,592	\$ 63,577	\$ 5,156,323
Tuition	491,390	-	-	491,390
Earnings on investments	5,317	-	1,283	6,600
Charges for services	-	-	173,224	173,224
Extracurricular	106,638	-	104,024	210,662
Classroom materials and fees	30,157	-	-	30,157
Rental income	15,600	-	-	15,600
Contributions and donations	4,717	-	2,175	6,892
Contract services	94,674	-	-	94,674
Other local revenues	44,628	5	1,780	46,413
Intergovernmental - state	6,585,613	111,940	114,114	6,811,667
Intergovernmental - federal	150,619	-	744,134	894,753
Total revenues	<u>11,736,507</u>	<u>997,537</u>	<u>1,204,311</u>	<u>13,938,355</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,504,857	-	20,873	5,525,730
Special	1,447,116	-	372,535	1,819,651
Other	22,857	-	-	22,857
Support services:				
Pupil	586,911	-	34,073	620,984
Instructional staff	334,728	-	5,400	340,128
Board of education	31,045	-	-	31,045
Administration	862,905	5,255	229	868,389
Fiscal	388,895	12,084	982	401,961
Business	27,759	-	-	27,759
Operations and maintenance	854,284	-	23,773	878,057
Pupil transportation	679,844	-	-	679,844
Central	51,680	-	-	51,680
Operation of non-instructional services:				
Other non-instructional services	-	-	94,585	94,585
Food service operations	-	-	375,562	375,562
Extracurricular activities	194,854	-	134,226	329,080
Facilities acquisition and construction	-	-	6,341	6,341
Debt service:				
Principal retirement	-	619,000	-	619,000
Interest and fiscal charges	-	182,660	-	182,660
Bond issuance costs	-	123,786	-	123,786
Total expenditures	<u>10,987,735</u>	<u>942,785</u>	<u>1,068,579</u>	<u>12,999,099</u>
Excess of revenues over expenditures	<u>748,772</u>	<u>54,752</u>	<u>135,732</u>	<u>939,256</u>
Other financing sources (uses):				
Premium on bonds issued	-	215,036	-	215,036
Issuance of bonds	-	5,774,900	-	5,774,900
Transfers in	-	-	21,088	21,088
Transfers (out)	(21,088)	-	-	(21,088)
Payment to refunded bond escrow agent	-	(5,865,475)	-	(5,865,475)
Total other financing sources (uses)	<u>(21,088)</u>	<u>124,461</u>	<u>21,088</u>	<u>124,461</u>
Net change in fund balances	727,684	179,213	156,820	1,063,717
Fund balances at beginning of year	1,219,123	595,750	1,024,771	2,839,644
Increase in reserve for inventory	5,691	-	1,814	7,505
Fund balances at end of year	\$ 1,952,498	\$ 774,963	\$ 1,183,405	\$ 3,910,866

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, 2016

Net change in fund balances - total governmental funds	\$	1,063,717
<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	\$ 122,078	
Current year depreciation	(695,922)	
Total		(573,844)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		
		7,505
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	(14,603)	
Earnings on investments	188	
Intergovernmental	(113,285)	
Total		(127,700)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
		619,000
Issuances of bonds are recorded as other financing sources in the funds; however, in the statement of activities, they are not reported as other financing sources as they increase liabilities on the statement of net position.		
		(5,774,900)
Payment to refunded bond escrow agent for the retirement of bonds is an other financing use in the governmental funds but the payment reduces long-term liabilities on the statement of net position. Deferred charges related to bond refundings are amortized over the life of the issuance in the statement of activities. The following refunding transactions occurred during the year:		
Bonds refunded	5,775,000	
Unamortized premium on bonds refunded	388,516	
Deferred charges on refunding refunded	(319,064)	
Deferred charges on refundings	21,023	
Total		5,865,475
Premiums on bonds and bond issuance costs related to the issuance of bonds are amortized over the life of the issuance in the statement of activities. The following transactions occurred in the year:		
Total		(215,036)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities:		
Decrease in accrued interest payable	15,318	
Accreted interest on capital appreciation bonds	(21,925)	
Amortization on note discounts	(1,307)	
Amortization of bond premiums	7,202	
Amortization of deferred charges on refunding	(704)	
Total		(1,416)
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
		868,247
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(761,027)
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 governmental funds.		
		(37,688)
Change in net position of governmental activities	\$	932,333

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, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Property taxes	\$ 2,823,127	\$ 2,936,291	\$ 2,947,536	\$ 11,245
Tuition	470,649	489,515	491,390	1,875
Earnings on investments	4,822	5,016	5,083	67
Extracurricular	48,903	50,863	51,058	195
Classroom materials and fees	28,621	29,768	30,145	377
Rental income	14,942	15,540	15,600	60
Contributions and donations	3,846	4,001	4,016	15
Contract services	90,678	94,313	94,674	361
Other local revenues	41,483	43,146	43,061	(85)
Intergovernmental - state	6,208,790	6,457,668	6,482,399	24,731
Intergovernmental - federal	101,582	105,654	150,619	44,965
Total revenues	<u>9,837,443</u>	<u>10,231,775</u>	<u>10,315,581</u>	<u>83,806</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,756,382	4,808,878	4,798,881	9,997
Special	1,790,829	1,741,384	1,741,384	-
Other	32,497	32,012	32,012	-
Support services:				
Pupil	574,243	613,031	613,031	-
Instructional staff	210,799	446,137	446,137	-
Board of education	42,095	33,365	33,365	-
Administration	1,032,717	869,193	869,342	(149)
Fiscal	334,728	392,916	391,495	1,421
Business	29,015	28,037	28,037	-
Operations and maintenance	1,125,462	978,834	978,834	-
Pupil transportation	863,620	729,692	727,984	1,708
Central	95,032	58,052	58,052	-
Extracurricular activities	202,056	195,943	195,943	-
Facilities acquisition and construction	-	-	-	-
Total expenditures	<u>11,089,475</u>	<u>10,927,474</u>	<u>10,914,497</u>	<u>12,977</u>
Excess of expenditures over revenues	(1,252,032)	(695,699)	(598,916)	96,783
Other financing sources (uses):				
Refund of prior year's expenditures	127,621	133,245	133,245	-
Refund of prior year's receipts	(33)	(1,933)	(1,933)	-
Transfers (out)	(358)	(21,088)	(21,088)	-
Advances in	37,530	39,184	39,184	-
Advances (out)	(52,858)	(459,939)	(462,591)	(2,652)
Sale of capital assets	3,352	3,500	3,500	-
Total other financing sources (uses)	<u>115,254</u>	<u>(307,031)</u>	<u>(309,683)</u>	<u>(2,652)</u>
Net change in fund balance	(1,136,778)	(1,002,730)	(908,599)	94,131
Fund balance at beginning of year	1,228,160	1,228,160	1,228,160	-
Prior year encumbrances appropriated	523,073	523,073	523,073	-
Fund balance at end of year	<u>\$ 614,455</u>	<u>\$ 748,503</u>	<u>\$ 842,634</u>	<u>\$ 94,131</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2016

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 35,035
Cash in segregated accounts.	2,415,671
Total assets.	\$ 2,450,706
 Liabilities:	
Due to students.	\$ 35,035
Due to others	2,415,671
Total liabilities	\$ 2,450,706

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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's enrollment as of June 30, 2016 was 1,065. The District employed 87 certified employees and 54 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'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" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, 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. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. 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, 2016

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 32 school districts and community schools. 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, and as amended by GASB Statement No. 39, 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 38th 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.

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

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, 2016

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 deferred outflows and liabilities and deferred inflows is reported as fund balance. The following are the District's major governmental funds:

General fund - The general fund is used to account for and report all financial resources not accounted for and reported 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 debt service fund provided for the retirement of bonds and short term notes and 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, notes, or loans, shall be paid into this fund.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

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 position and changes in net position. 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 funds accounts for student activities and the activity of the Portage Area School Consortium.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net position 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, 2016

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 deferred outflows and all liabilities and deferred inflows associated with the operation of the District are included on the statement of net position.

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 deferred outflows and current liabilities and current deferred inflows 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 on 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 Nonexchange 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, 2016

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

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

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

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, see Note 11 for deferred outflows of resources related the District's net pension liability. In addition, deferred outflows of resources include a deferred charge on debt refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes, accrued interest, and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2017 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District, unavailable revenue includes, but is not limited to, delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

For the District, see Note 11 for deferred inflows of resources related to the District's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

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. Allocations 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 2016 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 purpose of the alternative tax budget is to reflect the need for existing (or increased) tax rates, as determined by the Portage County Budget Commission.
2. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, 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 2016.
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. Although the legal level of budgetary control has been established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

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, 2016; 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 several bank accounts. 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 2016, investments were limited to negotiable certificates of deposit (CD's), a money market mutual fund and 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.

The District has invested funds in STAR Ohio during fiscal year 2016. 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, 2016.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2016 amounted to \$5,317, which includes \$2,367 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. Inventories are accounted for using the purchase method on the fund financial statements.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

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 position, 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 2016, the District maintained a capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

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

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

<u>Description</u>	<u>Governmental Activities 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 loans receivable/payable". These amounts are eliminated in the governmental activities column on the statement of net position.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. 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, 2016, 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, 2016, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

K. Unamortized Bond Premium and Discount/Deferred Charge on Debt Refunding

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. The deferred charge on debt refunding 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-wide and 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 position is presented in Note 9.

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, 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 and notes are recognized as a liability on the fund financial statements when due.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

M. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

N. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component “net investment in capital assets,” consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District had no net position restricted for enabling legislation.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is 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. Interfund Activity

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

Q. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

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 2016.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

S. Fair Market Value

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2016, the District has implemented GASB Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 79, "Certain External Investment Pools and Pool Participants".

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the District.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the District.

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the District.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the District.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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 items (1) or (2) above 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 note interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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.

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 fiscal year-end, the District had \$2,150 in undeposited cash on hand, which is included in "equity in pooled cash and cash equivalents" in the financial statements of the District.

B. Cash with Fiscal Agent

At fiscal year-end, the District had \$5,925 of cash with fiscal agent, which is not included in "equity in pooled cash and cash equivalents" in the financial statements of the District. This cash with fiscal agent represents matured interest payable to investors who previously held bond coupons of the District.

C. Cash in Segregated Accounts

At fiscal year-end, the District had \$2,415,671 of cash in segregated accounts, which is not included in "equity in pooled cash and cash equivalents" in the financial statements of the District. This cash in segregated accounts represents the activity of the Portage Area School Consortium, for which the District is the fiscal agent of.

D. Deposits with Financial Institutions

At June 30, 2016, the carrying amount of all District deposits was \$825,682. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, \$250,000 of the District's bank balance of \$945,965 was covered by the FDIC, while \$695,965 was exposed to custodial risk as discussed below.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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.

E. Investments

As of June 30, 2016, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> <u>6 months or</u> <u>less</u>
STAR Ohio	\$ 1,033,969	\$ 1,033,969
Negotiable CDs	496,064	496,064
Money market mutual funds	<u>1,271,771</u>	<u>1,271,771</u>
Total	<u>\$ 2,801,804</u>	<u>\$ 2,801,804</u>

The weighted average maturity of investments is 0.06 years.

The District's investments in federal agency securities, negotiable certificates of deposit, commercial paper and U.S. Treasury notes are valued using quoted market prices (Level 1 inputs).

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: STAR Ohio carries a rating of AAAm by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The money market mutual fund carries a rating of Aaa from Moody's. The negotiable CD's are fully covered by the FDIC. The District's investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by the State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the present value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

**WATERLOO LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2016:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 1,033,969	36.90
Negotiable CDs	496,064	17.71
Money market mutual funds	<u>1,271,771</u>	<u>45.39</u>
Total	<u>\$ 2,801,804</u>	<u>100.00</u>

F. Reconciliation of Cash and Investments to the Statement of Net Position

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 position as of June 30, 2016:

<u>Cash and investments per note disclosure</u>	
Carrying amount of deposits	\$ 825,682
Investments	2,801,804
Cash in segregated accounts	2,415,671
Cash with fiscal agent	5,925
Cash on hand	<u>2,150</u>
Total	<u>\$ 6,051,232</u>
<u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 3,600,526
Agency fund	<u>2,450,706</u>
Total	<u>\$ 6,051,232</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund transfers for the year ended June 30, 2016, consisted of the following, as reported on the fund financial statements:

<u>Transfers to other governmental funds from:</u>	<u>Amount</u>
General fund	<u>\$ 21,088</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**WATERLOO LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 5 - INTERFUND TRANSACTIONS – (Continued)

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the statement of activities.

- B.** Interfund balances at June 30, 2016 as reported on the fund statements include the following interfund loans receivable and payable:

Receivable fund	Payable fund	Amount
General fund	Other nonmajor governmental funds	<u>\$ 462,591</u>

This interfund balance 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 statement of net position.

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 property and public utility property. Real property tax revenues received in calendar year 2016 represent the collection of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed values as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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 revenues received in calendar year 2016 represent the collection of calendar year 2015 taxes. Public utility real and personal property taxes received in calendar year 2016 became a lien on December 31, 2014, were levied after April 1, 2015, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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, 2016, are available to finance fiscal year 2016 operations. The amount available as an advance at June 30, 2016 was \$829,782 in the general fund, \$153,529 in the bond retirement fund and \$12,543 in the classroom facilities maintenance fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2015 was \$385,228 in the general fund, \$71,846 in the bond retirement fund and \$5,874 in the classroom facilities maintenance fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 6 - PROPERTY TAXES – (Continued)

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2016 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows.

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

The assessed values upon which the fiscal year 2016 taxes were collected are:

	2015 Second Half Collections		2016 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 149,256,110	96.24	\$ 156,025,570	96.30
Public utility personal	<u>5,836,110</u>	<u>3.76</u>	<u>5,993,000</u>	<u>3.70</u>
Total	<u>\$ 155,092,220</u>	<u>100.00</u>	<u>\$ 162,018,570</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
General obligations	\$55.11		\$54.85	
Bonded debt	5.07		4.84	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2016 consisted of property 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 position follows:

<u>Governmental activities:</u>	<u>Amount</u>
Property taxes	\$ 4,802,711
Accounts	418
Intergovernmental	527,211
Accrued interest	<u>2,419</u>
Total	<u>\$ 5,332,759</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

<u>Governmental activities:</u>	<u>Balance</u> <u>06/30/15</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/16</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	1,059,305	-	-	1,059,305
Buildings and improvements	20,446,855	-	-	20,446,855
Furniture and equipment	1,594,822	42,120	-	1,636,942
Vehicles	<u>1,593,462</u>	<u>79,958</u>	<u>-</u>	<u>1,673,420</u>
<i>Total capital assets, being depreciated</i>	<u>24,694,444</u>	<u>122,078</u>	<u>-</u>	<u>24,816,522</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(712,781)	(59,474)	-	(772,255)
Buildings and improvements	(7,748,729)	(473,067)	-	(8,221,796)
Furniture and equipment	(1,447,173)	(44,963)	-	(1,492,136)
Vehicles	<u>(1,035,955)</u>	<u>(118,418)</u>	<u>-</u>	<u>(1,154,373)</u>
<i>Total accumulated depreciation</i>	<u>(10,944,638)</u>	<u>(695,922)</u>	<u>-</u>	<u>(11,640,560)</u>
Total capital assets, net	<u>\$ 14,049,104</u>	<u>\$ (573,844)</u>	<u>\$ -</u>	<u>\$ 13,475,260</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 296,561
Special	15,604
<u>Support services:</u>	
Pupil	10,065
Instructional staff	35,111
Administration	22,468
Fiscal	3,515
Business	852
Operations and maintenance	80,315
Pupil transportation	120,275
Extracurricular activities	57,827
Food service operations	<u>53,329</u>
Total depreciation expense	<u>\$ 695,922</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - LONG-TERM OBLIGATIONS

- A. During fiscal year 2016, the following changes occurred in governmental activities long-term obligations.

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Amount Due in One Year
<u>General obligation bonds:</u>					
Series 2006 refunding:					
Current interest	\$ 6,315,000	\$ -	\$ (6,315,000)	\$ -	
Series 2016 refunding:					
Current interest	-	5,175,000	-	5,175,000	\$ -
Capital appreciation	-	599,900	-	599,900	599,900
Accreted interest	-	21,925	-	21,925	21,925
<u>Other long-term obligations:</u>					
Energy conservation note	948,000	-	(79,000)	869,000	82,000
Compensated absences	710,590	86,185	(55,027)	741,748	42,725
Net pension liability	12,912,546	2,099,151	-	15,011,697	-
Total	\$ 20,886,136	\$ 7,982,161	\$ (6,449,027)	22,419,270	\$ 746,550
Add: Unamortized premium on refunding				207,834	
Less: Unamortized discount on note				(11,110)	
Total on statement of net position				\$ 22,615,994	

B. 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. 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 position.

The refunding issue is comprised of both current interest bonds, par value \$7,480,000, and capital appreciation bonds, par value \$164,999. The current interest bonds mature December 1, 2024 and bear interest rates from 3.5% to 4.0%. The remaining capital appreciation bonds matured December 1, 2013 at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. These bonds will be repaid from the bond retirement fund.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

On March 15, 2016, all of the series 2006 Refunding general obligation bonds were refunded by the District's Series 2016 Refunding general obligation bonds. Principal payments on the Series 2006 Refunding general obligation bonds made during 2016 amounted to \$540,000 and were paid from the bond retirement fund. There were no further obligations outstanding on this issue.

C. General Obligation Bonds - Series 2016 Refunding

On March 15, 2016, the District issued Series 2016 Refunding general obligation bonds to advance refund the remaining \$5,775,000 of the District's Series 2006 Refunding general obligation bonds. The issuance proceeds of \$5,774,900 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 position.

The original issue was comprised of current interest serial refunding bonds, par value \$5,175,000, and capital appreciation refunding bonds, par value \$599,900. Interest payments on the current interest serial refunding bonds are due on June 1 and December 1 of each year until final maturity at December 1, 2024 at interest rates ranging from 1.0% to 3.0%.

The capital appreciation bonds mature on December 1, 2016 at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date at stated approximate yields to maturity of 0.700%. The accreted value at maturity for the capital appreciation bonds is \$675,000. Total accreted interest of \$621,825 has been included in the statement of net position.

The following is a summary of the future debt service requirements to maturity for the District's general obligation bonds:

Year Ended	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ -	\$ 104,451	\$ 104,451	\$ 599,900	\$ 75,100	\$ 675,000
2018	615,000	101,375	716,375	-	-	-
2019	620,000	93,650	713,650	-	-	-
2020	635,000	82,650	717,650	-	-	-
2021	640,000	69,900	709,900	-	-	-
2022 - 2025	2,665,000	140,000	2,805,000	-	-	-
Total	<u>\$ 5,175,000</u>	<u>\$ 592,026</u>	<u>\$ 5,767,026</u>	<u>\$ 599,900</u>	<u>\$ 75,100</u>	<u>\$ 675,000</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

D. OASBO Energy Conservation Note

On August 20, 2009, the District issued a \$1,307,000 note through the OASBO Expanded Asset Pooled Financing Program. The energy conservation project was primarily for various building maintenance and repairs, which have not been capitalized by the District. The District has capitalized \$289,077 in land improvements and building improvements from the note proceeds, none of which are included in net investment in capital assets at June 30, 2016. The remaining expenditures from the note proceeds were expensed as repair and maintenance costs. The note is scheduled to mature on December 1, 2024 and has an interest rate of 3.85%. The note will be repaid from the bond retirement fund.

The following is a summary of the future debt service requirements to maturity for the energy conservation note:

Fiscal Year Ending June 30,	Energy Conservation Note		
	Principal	Interest	Total
2017	\$ 82,000	\$ 34,776	\$ 116,776
2018	85,000	31,269	116,269
2019	89,000	27,615	116,615
2020	92,000	23,814	115,814
2021	96,000	19,866	115,866
2022 - 2026	<u>425,000</u>	<u>36,603</u>	<u>461,603</u>
Total	<u>\$ 869,000</u>	<u>\$ 173,943</u>	<u>\$ 1,042,943</u>

E. 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, 2016 are a legal voted debt margin of \$9,581,736 (including available funds of \$774,963), a legal unvoted debt margin of \$162,019, and a legal energy conservation debt margin of \$589,167.

**WATERLOO LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 10 - RISK MANAGEMENT

A. Comprehensive

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

B. Workers' Compensation

The District pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State. The firm of Sheakley UniService, Inc. provides administrative, cost control and actuarial services to the program.

C. Employee Medical Benefits

The District is a member of the Portage Area School Consortium (the "Consortium"), an insurance purchasing pool (See Note 2.A), through which a cooperative Health Benefit Program was created for the benefit of its members. The Consortium acts as a fiscal agent for the cash funds paid into the program by the participating school districts. These funds are pooled together for the purposes of paying health benefit claims of employees and their covered dependents, administrative expenses of the program, and premiums for stop-loss insurance coverage. A reserve exists which is to cover any unpaid claims if the school district were to withdraw from the pool. If the reserve would not cover such claims, the school district would be liable for any costs above the reserve.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Ohio Revised Code limits the District's obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions are financed; however, the District does receive the benefit of employees' services in exchange for compensation, including pension.

**WATERLOO LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *pension and postemployment benefits payable* on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

Plan Description – District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017 will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on years of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

**WATERLOO LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$207,672 for fiscal year 2016. Of this amount, \$11,581 is reported as pension and postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS website 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. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

**WATERLOO LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013 must have at least ten years of qualifying service credit to apply for disability 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 – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$660,575 for fiscal year 2016. Of this amount, \$110,832 is reported as pension and postemployment benefits payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate share of the net pension liability	\$ 2,691,012	\$ 12,320,685	\$ 15,011,697
Proportion of the net pension liability	0.04716030%	0.04458028%	
Pension expense	\$ 178,269	\$ 582,758	\$ 761,027

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 43,195	\$ 559,584	\$ 602,779
Changes in employer's proportionate percentage/difference between the employer's contributions and the employer's proportionate share of contributions	22,066	278,374	300,440
District contributions subsequent to the measurement date	<u>207,672</u>	<u>660,575</u>	<u>868,247</u>
Total deferred outflows of resources	<u>\$ 272,933</u>	<u>\$ 1,498,533</u>	<u>\$ 1,771,466</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	<u>\$ 85,618</u>	<u>\$ 846,051</u>	<u>\$ 931,669</u>
Total deferred inflows of resources	<u>\$ 85,618</u>	<u>\$ 846,051</u>	<u>\$ 931,669</u>

\$868,247 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2017	\$ (24,261)	\$ (117,716)	\$ (141,977)
2018	(24,261)	(117,716)	(141,977)
2019	(24,263)	(117,716)	(141,979)
2020	<u>52,428</u>	<u>345,055</u>	<u>397,483</u>
Total	<u>\$ (20,357)</u>	<u>\$ (8,093)</u>	<u>\$ (28,450)</u>

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22.00 percent
COLA or Ad Hoc COLA	3.00 percent
Investment Rate of Return	7.75 percent net of investment expenses, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set-back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	<u>15.00</u>	7.50
Total	<u>100.00 %</u>	

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

Discount Rate - The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 3,731,467	\$ 2,691,012	\$ 1,814,864

Changes between measurement date and report date: In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the School District's net pension liability is expected to be significant.

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected Salary Increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2.00 percent simple applied as follows: for members retiring before August 1, 2013, 2.00 percent per year; for members retiring August 1, 2013, or later, 2.00 percent COLA paid on fifth anniversary of retirement date.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set-back four years, one year set-back from age 80 through 89 and no set-back from age 90 and above.

Actuarial assumptions used in the June 30, 2015 valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	<u>1.00</u>	3.00
Total	<u>100.00 %</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent) or one percentage point higher (8.75 percent) than the current rate:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 17,114,361	\$ 12,320,685	\$ 8,266,917

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. 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, number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, none of the employer contribution was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the District's surcharge obligation was \$24,510.

The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$24,510, \$36,739, and \$24,295, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care. The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$45,358, respectively. The full amount has been contributed for fiscal year 2014.

NOTE 13 - 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 assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis);
- (e) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (f) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).
- (g)

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ (908,599)
Net adjustment for revenue accruals	416,745
Net adjustment for expenditure accruals	64,795
Net adjustment for other sources/uses	288,595
Funds budgeted elsewhere *	6,941
Adjustment for encumbrances	859,207
GAAP basis	\$ 727,684

* Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the underground storage tank fund, the public school support fund and the emergency levy fund.

NOTE 14 - 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 not involved in any material litigation as either plaintiff or defendant.

C. Foundation Funding

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2015-2016 school year, traditional Districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 15 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

The following cash-basis information describes the change in the fiscal year-end set-aside amount for capital improvements. Disclosure of this information is required by State statute.

	<u>Capital Improvements</u>
Set-aside balance June 30, 2015	\$ -
Current year set-aside requirement	200,505
Current year qualifying expenditures	(11,689)
Current year offsets	<u>(188,816)</u>
Total	<u>\$ -</u>
Balance carried forward to fiscal year 2017	<u>\$ -</u>
Set-aside balance June 30, 2016	<u>\$ -</u>

During fiscal year 2016 the District issued \$5,175,000 in capital related general obligation bonds. These proceeds may be used to reduce the capital acquisition set-aside to zero in future years. The District is responsible for tracking the amount of bond proceeds that may be used as an offset in future periods, which was \$4,986,184 at June 30, 2016.

NOTE 16 - OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year-end, the District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 827,696
Bond retirement fund	458
Other governmental	<u>54,196</u>
Total	<u>\$ 882,350</u>

REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST THREE FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.04716030%	0.04658500%	0.04658500%
District's proportionate share of the net pension liability	\$ 2,691,012	\$ 2,357,640	\$ 2,770,260
District's covered-employee payroll	\$ 1,419,772	\$ 1,353,658	\$ 1,311,936
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	189.54%	174.17%	211.16%
Plan fiduciary net position as a percentage of the total pension liability	69.16%	71.70%	65.52%

Note: Information prior to fiscal year 2014 was unavailable.

Amounts presented for each fiscal year were determined as of the District's measurement date which, is the prior fiscal year-end.

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST THREE FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.04458028%	0.04339393%	0.04339393%
District's proportionate share of the net pension liability	\$ 12,320,685	\$ 10,554,906	\$ 12,572,934
District's covered-employee payroll	\$ 4,714,071	\$ 4,433,662	\$ 4,367,354
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	261.36%	238.06%	287.88%
Plan fiduciary net position as a percentage of the total pension liability	72.10%	74.70%	69.30%

Note: Information prior to fiscal year 2014 was unavailable.

Amounts presented for each fiscal year were determined as of the District's measurement date which, is the prior fiscal year-end.

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

	LAST TEN FISCAL YEARS			
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 207,672	\$ 187,126	\$ 187,617	\$ 181,572
Contributions in relation to the contractually required contribution	<u>(207,672)</u>	<u>(187,126)</u>	<u>(187,617)</u>	<u>(181,572)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 1,483,371	\$ 1,419,772	\$ 1,353,658	\$ 1,311,936
Contributions as a percentage of covered-employee payroll	14.00%	13.18%	13.86%	13.84%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 167,535	\$ 172,230	\$ 192,713	\$ 141,231	\$ 138,664	\$ 146,749
<u>(167,535)</u>	<u>(172,230)</u>	<u>(192,713)</u>	<u>(141,231)</u>	<u>(138,664)</u>	<u>(146,749)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,245,613	\$ 1,370,167	\$ 1,423,287	\$ 1,435,274	\$ 1,412,057	\$ 1,374,054
13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

	LAST TEN FISCAL YEARS			
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 660,575	\$ 659,970	\$ 576,376	\$ 567,756
Contributions in relation to the contractually required contribution	<u>(660,575)</u>	<u>(659,970)</u>	<u>(576,376)</u>	<u>(567,756)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 4,718,393	\$ 4,714,071	\$ 4,433,662	\$ 4,367,354
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%	13.00%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 607,557	\$ 649,909	\$ 661,810	\$ 663,750	\$ 643,178	\$ 642,710
<u>(607,557)</u>	<u>(649,909)</u>	<u>(661,810)</u>	<u>(663,750)</u>	<u>(643,178)</u>	<u>(642,710)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 4,673,515	\$ 4,999,300	\$ 5,090,846	\$ 5,105,769	\$ 4,947,523	\$ 4,943,923
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal years 2014-2016.

Changes between measurement date and report date: In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the School District's net pension liability is expected to be significant.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal years 2014-2016.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. See the notes to the basic financials for the methods and assumptions in this calculation.



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Waterloo Local School District, Portage County, (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 8, 2017.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State
Columbus, Ohio

February 8, 2017



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WATERLOO LOCAL SCHOOL DISTRICT

PORTAGE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 23, 2017**