



***WELLSTON CITY SCHOOL DISTRICT***

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**JACKSON COUNTY**

**SINGLE AUDIT**

**For the Fiscal Year Ended June 30, 2016**

**J.L. UHRIG**  
AND ASSOCIATES INC.

CERTIFIED PUBLIC ACCOUNTANT AND MANAGEMENT CONSULTANTS







# Dave Yost • Auditor of State

Board of Education  
Wellston City School District  
1 East Broadway Street  
Wellston, Ohio 45692

We have reviewed the *Independent Auditor's Report* of the Wellston City School District, Jackson County, prepared by J.L. Uhrig and Associates, Inc., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

February 10, 2017

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*For the Fiscal Year Ended June 30, 2016*

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## **Independent Auditor's Report**

Board of Education  
Wellston City School District  
1 E Broadway Street  
Wellston, OH 45692

### **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 Wellston City School District, Jackson County, Ohio (the School District), as of and for the year ended June 30, 2016, and related notes to the financial statements, which collectively comprise the School 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' *Governmental 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 School 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 School 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 the Wellston City School District, Jackson County, Ohio as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows, thereof and the 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 on pages 4-12 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 inquires of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 assurance.

*Supplementary and Other Information*

We audited to opine on the School District's financial statements that collectively comprise its basic financial statements.

The Schedule of Federal Award Receipts and Expenditures presents additional analysis as required by the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated December 13, 2016, on our consideration of the School 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 School District's internal control over financial reporting and compliance.

*J. L. Uhrig and Associates, Inc.*

J. L. UHRIG AND ASSOCIATES, INC.  
Chillicothe, Ohio

December 13, 2016

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**Wellston City School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year June 30, 2016*  
*Unaudited*

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The discussion and analysis of the Wellston City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

## **FINANCIAL HIGHLIGHTS**

*Key financial highlights for fiscal year 2016 are as follows:*

- Net position of governmental activities increased \$2,363,383.
- General revenues accounted for \$15,990,957 in revenue or 74.8 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, contributions, and interest accounted for \$5,373,573 or 25.2 percent of total revenues of \$21,364,530.
- The School District had \$19,001,147 in expenses related to governmental activities; only \$5,373,573 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues (primarily taxes and intergovernmental) of \$15,990,957 were adequate to cover the remaining expenses.
- Total governmental funds had \$21,278,856 in revenues and \$18,966,733 in expenditures. The total governmental fund balances increased \$2,312,123.

## **USING THE 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 Wellston City School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

The Statement of Net Position and the Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School 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 School District's most significant funds with all other non-major funds presented in total in one column.

### ***Reporting the School District as a Whole***

#### *Statement of Net Position and Statement of Activities*

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2016?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**Wellston City School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year June 30, 2016*  
*Unaudited*

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These two statements report the School District's net position and changes in net position. This change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School 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 School 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, all of the School District's activities are reported as governmental including instruction, support services, operation of non-instructional services, debt service, and extracurricular activities.

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

*Fund Financial Statements*

The analysis of the School District's major funds begins on page 10. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's only major governmental fund is the General Fund.

***Governmental Funds*** All of the School 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 fiscal 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 be readily converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general governmental 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 financial statements.

***Proprietary Funds*** – Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no enterprise funds. The internal service fund is used to account for the financing services provided by one department or agency to other departments or agencies of the School District on a cost-reimbursement basis. The internal service fund is used to account for the reimbursement to employees for deductibles on their health insurance.

***Fiduciary Funds*** The School District accounts for resources held for the benefit of parties outside the government as fiduciary funds. These funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the School District's own programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

**Wellston City School District, Ohio**  
*Management's Discussion and Analysis*  
For the Fiscal Year June 30, 2016  
Unaudited

Table 1  
Net Position

	2016	2015	Change
<b>Assets</b>			
Current and Other Assets	\$15,326,798	\$12,758,447	\$2,568,351
Capital Assets	36,265,696	36,891,588	(625,892)
<b>Total Assets</b>	<b>51,592,494</b>	<b>49,650,035</b>	<b>1,942,459</b>
<b>Deferred Outflows of Resources</b>			
Deferred Charge on Refunding	19,050	22,225	(3,175)
Pension	1,929,372	1,269,212	660,160
<b>Total Deferred Outflows of Resources</b>	<b>1,948,422</b>	<b>1,291,437</b>	<b>656,985</b>
<b>Liabilities</b>			
Current and Other Liabilities	1,838,603	1,850,088	(11,485)
Long-Term Liabilities:			
Due Within One Year	402,450	382,000	20,450
Due in More Than One Year:			
Net Pension Liability	19,751,832	17,786,034	1,965,798
Other Amounts	3,160,229	3,484,311	(324,082)
<b>Total Liabilities</b>	<b>25,153,114</b>	<b>23,502,433</b>	<b>1,650,681</b>
<b>Deferred Inflows of Resources</b>			
Property Taxes	2,208,272	2,061,416	146,856
Pension	1,659,603	3,221,079	(1,561,476)
<b>Total Deferred Inflows of Resources</b>	<b>3,867,875</b>	<b>5,282,495</b>	<b>(1,414,620)</b>
<b>Net Position</b>			
Net Investment in Capital Assets	33,422,614	33,660,159	(237,545)
Restricted	1,556,183	1,565,176	(8,993)
Unrestricted	(10,458,870)	(13,068,791)	2,609,921
<b>Total Net Position</b>	<b>\$24,519,927</b>	<b>\$22,156,544</b>	<b>\$2,363,383</b>

The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2016 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School 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.

Governmental Accounting Standards Board 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.

**Wellston City School District, Ohio**  
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*Unaudited*

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Under the new standards required by GASB 68, the net pension liability equals the School 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 School 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 School 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.

Total assets of governmental activities increased \$1,942,459. Current assets increased \$2,571,351 primarily due to increases in cash and cash equivalents. Capital assets decreased \$628,892 mainly due to depreciation, offset by additions.

Long-term liabilities increased primarily due to the increase in net pension liability, which was offset by decreases in other long-term loans payable due to principal payments on the outstanding bonds.

**Wellston City School District, Ohio**  
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The net effect of changes in assets and liabilities resulted in a \$2,363,383 increase in total net position of the School District's governmental activities.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2016 and 2015.

**Table 2**  
**Changes in Net Position**

<b>Revenues</b>	2016	2015	Change
<b>Program Revenues:</b>			
Charges for Services and Sales	\$716,558	\$696,980	\$19,578
Operating Grants, Contributions and Interest	4,657,015	4,608,922	48,093
<b>Total Program Revenues</b>	<b>5,373,573</b>	<b>5,305,902</b>	<b>67,671</b>
<b>General Revenues:</b>			
Property Taxes	2,290,558	2,067,503	223,055
Grants and Entitlements	13,665,335	11,680,713	1,984,622
Investment Earnings	30,005	17,540	12,465
Gifts and Donations	0	250	(250)
Miscellaneous	5,059	14,690	(9,631)
<b>Total General Revenues</b>	<b>15,990,957</b>	<b>13,780,696</b>	<b>2,210,261</b>
<b>Total Revenues</b>	<b>21,364,530</b>	<b>19,086,598</b>	<b>2,277,932</b>
<b>Program Expenses</b>			
<b>Instruction:</b>			
Regular	7,885,914	7,584,947	300,967
Special	2,988,244	2,998,511	(10,267)
Vocational	41,995	31,135	10,860
Adult/Continuing	31,172	29,322	1,850
Student Intervention Services	388,124	0	388,124
<b>Support Services:</b>			
Pupils	565,870	554,860	11,010
Instructional Staff	743,272	909,695	(166,423)
Board of Education	173,619	165,125	8,494
Administration	1,233,808	1,298,616	(64,808)
Fiscal	467,839	451,367	16,472
Operation and Maintenance of Plant	1,932,071	2,084,081	(152,010)
Pupil Transportation	1,030,645	1,075,094	(44,449)
Central	90,756	121,278	(30,522)
<b>Operation of Non-Instructional Services:</b>			
Food Service Operations	773,672	851,056	(77,384)
Community Services	87,583	108,293	(20,710)
Other	0	2,909,433	(2,909,433)
Extracurricular Activities	405,480	363,658	41,822
Interest and Fiscal Charges	161,083	177,048	(15,965)
<b>Total Expenses</b>	<b>19,001,147</b>	<b>21,713,519</b>	<b>(2,712,372)</b>
<b>Change in Net Position</b>	<b>2,363,383</b>	<b>(2,626,921)</b>	<b>4,990,304</b>
<b>Net Position Beginning of Year</b>	<b>22,156,544</b>	<b>24,783,465</b>	
<b>Net Position End of Year</b>	<b>\$24,519,927</b>	<b>\$22,156,544</b>	<b>\$2,363,383</b>

**Wellston City School District, Ohio**  
*Management's Discussion and Analysis*  
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Total revenues increased \$2,277,932 from fiscal year 2015 to fiscal year 2016. Charges for services increased \$19,578, operating grants and contributions increased \$48,093. Overall, program expenses decreased \$2,712,372 primarily as a result of school facilities money being returned in fiscal year 2015, offset by increases in regular instruction and student intervention.

The DeRolph III decision has not eliminated the dependence on property taxes. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. Inflation alone will not increase the amount of funds generated by a tax levy. Basically, the mills collected decreased as the property valuation increases thus generating about the same revenue. Property taxes made up approximately 10.7 percent of revenues for governmental activities for the School District in fiscal year 2016.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements.

Table 3

	2016 Total Cost of Services	2016 Net Cost of Services	2015 Total Cost of Services	2015 Net Cost of Services
<b>Program Expenses</b>				
Instruction:				
Regular	\$7,885,914	\$6,717,225	\$7,584,947	\$6,623,060
Special	2,988,244	689,821	2,998,511	707,147
Vocational	41,995	32,095	31,135	10,045
Adult/Continuing	31,172	31,172	29,322	29,322
Student Intervention Services	388,124	388,124	0	0
Support Services:				
Pupils	565,870	500,007	554,860	468,557
Instructional Staff	743,272	328,283	909,695	391,307
Board of Education	173,619	162,369	165,125	160,125
Administration	1,233,808	1,110,578	1,298,616	1,194,068
Fiscal	467,839	447,119	451,367	441,367
Operation and Maintenance of Plant	1,932,071	1,868,353	2,084,081	2,081,317
Pupil Transportation	1,030,645	936,298	1,075,094	956,816
Central	90,756	50,364	121,278	46,628
Operation of Non-Instructional Services:				
Food Service Operations	773,672	(4,360)	851,056	39,012
Community School Services	87,583	(18,518)	108,293	5,213
Other	0	0	2,909,433	2,909,433
Extracurricular Activities	405,480	227,561	363,658	167,152
Interest and Fiscal Charges	161,083	161,083	177,048	177,048
<b>Totals</b>	<b>\$19,001,147</b>	<b>\$13,627,574</b>	<b>\$21,713,519</b>	<b>\$16,407,617</b>

The dependence upon tax revenues and State subsidies for governmental activities is apparent. For fiscal year 2016, approximately 71.7 percent of expenses were supported through taxes and other general revenues.



**Wellston City School District, Ohio**  
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**THE SCHOOL DISTRICT FUNDS**

The School District's governmental funds reported a combined fund balance of \$10,144,847, an increase of \$2,312,123 from fiscal year 2015. All governmental funds had total revenues of \$21,278,856 and expenditures of \$18,966,733.

The School District's funds are accounted for using the modified accrual basis of accounting. The General Fund's \$2,244,833 increase in fund balance is due mainly to an increase in revenues.

***General Fund Budgeting Highlights***

The School 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 2016, the School District did amend its General Fund estimated revenues and appropriations numerous times. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, the final revenue estimates were \$17,512,282, which represented an increase of \$2,298,295, or 15.1 percent from original estimates of \$15,213,987. This difference was due mainly to an increase in Economically Disadvantaged State Funding. The final expenditure estimate of \$17,028,402 represented a \$767,599, or 4.7 percent increase from the original estimates of \$16,260,803.

The School District's ending unobligated General Fund balance was \$8,648,636.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

***Capital Assets***

At the end of fiscal year 2016, the School District had \$36,265,696 invested in land, land improvements, buildings and improvements, furniture, fixtures, and equipment, and vehicles. Table 4 shows fiscal year 2016 balances compared to 2015.

**Table 4**  
**Capital Assets at June 30**  
**(Net of Depreciation)**

	2016	2015
Land	\$189,885	\$189,885
Construction in Progress	209,004	0
Land Improvements	238,439	288,049
Buildings and Improvements	34,206,529	34,958,764
Furniture, Fixtures, and		
Equipment	1,196,896	1,176,882
Vehicles	224,943	278,008
Totals	\$36,265,696	\$36,891,588

**Wellston City School District, Ohio**  
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For additional information on capital assets, see Note 16 to the basic financial statements.

***Debt***

At June 30, 2016, the School District had the following outstanding debt:

**Table 5**  
**Outstanding Debt, at Fiscal Year End**

	2016	2015
1999 Classroom Facilities Assistance Serial Bonds	\$210,000	\$410,000
2010 Classroom Facilities Refunding Bonds	1,320,698	1,320,021
2010 Qualified School Construction Bonds	1,450,000	1,612,000
Totals	\$2,980,698	\$3,342,021

For additional information on debt, see Note 20 to the basic financial statements.

**CURRENT ISSUES**

The financial future of the School District is not without its challenges. These challenges are external and internal in nature. The internal challenges will continue to exist, as the School District must rely heavily on local property taxes. Due to slow economic growth, the School District does not foresee any sustainable growth in revenue from property taxes. Thus management must diligently plan expenses from the modest growth attained, staying carefully within its five-year forecast. Additional revenues from what was estimated must not be treated as a windfall to expand programs but as an opportunity to extend the time horizon of the five-year forecast.

Externally, the School District is largely dependent on State funding sources (approximately 81 percent of the School District's operating funds come from State foundation payments and other entitlements). State foundation revenue is fundamentally a function of student enrollment and a district's property tax wealth. Although the School District saw a slight increase in student enrollment and State revenue growth has shifted toward school districts with low property tax wealth, future enrollment estimates continue to indicate a declining enrollment which will serve to offset any increase in State funding.

Although higher per-pupil funding has helped the School District lessen the impact of increased instructional expenses, much of the positive impact has been offset by other negative financial factors that occurred in the past year (increasing personal services and higher insurance costs). In the long run, the fact remains that as long as the State avoids the complete systematic overhaul the Supreme Court ordered in its initial ruling, all schools in Ohio will be faced with the same problem in the future – either increasing its revenue (passing levies) or decreasing expenses (making budget cuts).

As the preceding information shows, the School District continues to depend upon its taxpayers. Although Wellston City School District has kept spending in line with revenues, and carefully watched financial planning, it must keep its revenue to expense ratios improving if the School District hopes to remain on firm financial footing.

**Wellston City School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year June 30, 2016*  
*Unaudited*

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**CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions or need additional information, contact Tami Downard, Treasurer at Wellston City School District, One East Broadway Street, Wellston, Ohio 45692.

**Wellston City School District, Ohio**  
*Statement of Net Position*  
*June 30, 2016*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$11,845,583
Accounts Receivable	4,869
Accrued Interest Receivable	123
Intergovernmental Receivable	440,348
Inventory Held for Resale	4,839
Materials and Supplies Inventory	2,602
Property Taxes Receivable	3,004,919
Prepaid Items	23,515
Nondepreciable Capital Assets	398,889
Depreciable Capital Assets, Net	35,866,807
<i>Total Assets</i>	<i>51,592,494</i>
<b>Deferred Outflows of Resources</b>	
Deferred Charge on Refunding	19,050
Pension	1,929,372
<i>Total Deferred Outflows of Resources</i>	<i>1,948,422</i>
<b>Liabilities</b>	
Accounts Payable	192,687
Accrued Wages and Benefits Payable	1,317,575
Contracts Payable	32,200
Accrued Interest Payable	10,699
Vacation Benefits Payable	33,455
Intergovernmental Payable	227,577
Claims Payable	24,410
Long-Term Liabilities:	
Due Within One Year	402,450
Due In More Than One Year:	
Net Pension Liability (See Note 17)	19,751,832
Other Amounts Due in More Than One Year	3,160,229
<i>Total Liabilities</i>	<i>25,153,114</i>
<b>Deferred Inflows of Resources</b>	
Property Taxes	2,208,272
Pension	1,659,603
<i>Total Deferred Inflows of Resources</i>	<i>3,867,875</i>
<b>Net Position</b>	
Net Investment in Capital Assets	33,422,614
Restricted for:	
Debt Service	912,590
Food Service	33,840
Local Initiatives	7,839
Classroom Facilities	416,480
State Grants	41,832
Federal Grants	127,832
Other Purposes	15,770
Unrestricted	(10,458,870)
<i>Total Net Position</i>	<i>\$24,519,927</i>

See accompanying notes to the basic financial statements

**Wellston City School District, Ohio**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2016

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Revenue and Changes in Net Position
				Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$7,885,914	\$508,214	\$660,475	(\$6,717,225)
Special	2,988,244	0	2,298,423	(689,821)
Vocational	41,995	0	9,900	(32,095)
Adult/Continuing	31,172	0	0	(31,172)
Student Intervention	388,124	0	0	(388,124)
Support Services:				
Pupils	565,870	0	65,863	(500,007)
Instructional Staff	743,272	0	414,989	(328,283)
Board of Education	173,619	0	11,250	(162,369)
Administration	1,233,808	0	123,230	(1,110,578)
Fiscal	467,839	0	20,720	(447,119)
Operation and Maintenance of Plant	1,932,071	3,100	60,618	(1,868,353)
Pupil Transportation	1,030,645	0	94,347	(936,298)
Central	90,756	0	40,392	(50,364)
Operation of Non-Instructional Services:				
Food Service Operations	773,672	85,855	692,177	4,360
Community Services	87,583	0	106,101	18,518
Extracurricular Activities	405,480	119,389	58,530	(227,561)
Interest and Fiscal Charges	161,083	0	0	(161,083)
<i>Totals</i>	<u>\$19,001,147</u>	<u>\$716,558</u>	<u>\$4,657,015</u>	<u>(13,627,574)</u>
<b>General Revenues</b>				
Property Taxes Levied for:				
General Purposes				2,072,070
Debt Service				180,168
Classroom Facilities Maintenance				38,320
Grants and Entitlements not Restricted to Specific Programs				13,665,335
Investment Earnings				30,005
Miscellaneous				5,059
<i>Total General Revenues</i>				<u>15,990,957</u>
<i>Change in Net Position</i>				2,363,383
<i>Net Position Beginning of Year</i>				<u>22,156,544</u>
<i>Net Position End of Year</i>				<u>\$24,519,927</u>

See accompanying notes to the basic financial statements

**Wellston City School District, Ohio**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2016*

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$9,276,827	\$2,171,147	\$11,447,974
Receivables:			
Property Taxes	2,700,851	304,068	3,004,919
Accounts	3,649	1,220	4,869
Intergovernmental	41,713	398,635	440,348
Interfund	174,169	0	174,169
Interest	123	0	123
Prepaid Items	23,515	0	23,515
Inventory Held for Resale	0	4,839	4,839
Materials and Supplies Inventory	0	2,602	2,602
<i>Total Assets</i>	<u>\$12,220,847</u>	<u>\$2,882,511</u>	<u>\$15,103,358</u>
<b>Liabilities</b>			
Accounts Payable	\$186,249	\$6,438	\$192,687
Accrued Wages and Benefits Payable	1,115,525	202,050	1,317,575
Contracts Payable	32,200	0	32,200
Interfund Payable	0	174,169	174,169
Intergovernmental Payable	197,984	29,593	227,577
<i>Total Liabilities</i>	<u>1,531,958</u>	<u>412,250</u>	<u>1,944,208</u>
<b>Deferred Inflows of Resources</b>			
Property Taxes	1,982,993	225,279	2,208,272
Unavailable Revenue	585,810	220,211	806,021
<i>Total Deferred Inflows of Resources</i>	<u>2,568,803</u>	<u>445,490</u>	<u>3,014,293</u>
<b>Fund Balances</b>			
Nonspendable	23,515	2,602	26,117
Restricted	0	1,408,440	1,408,440
Committed	310,284	7,500	317,784
Assigned	936,719	666,181	1,602,900
Unassigned (Deficit)	6,849,568	(59,952)	6,789,616
<i>Total Fund Balances</i>	<u>8,120,086</u>	<u>2,024,771</u>	<u>10,144,857</u>
<i>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</i>	<u>\$12,220,847</u>	<u>\$2,882,511</u>	<u>\$15,103,358</u>

See accompanying notes to the basic financial statements

**Wellston City School District, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 June 30, 2016*

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<b>Total Governmental Fund Balances</b>	\$10,144,857
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*Amounts reported for governmental activities in the statement of  
 net position are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	36,265,696
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Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds:		
Delinquent Property Taxes	647,214	
Grants	155,020	
Tuition and Fees	2,551	
Miscellaneous Revenue	1,236	806,021

Accrued interest payable is recognized for outstanding long-term liabilities with interest accruals that are not expected to be paid with expendable available resources and therefore are not reported in the funds.	(10,699)
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Vacation Benefits Payable is recognized for earned vacation benefits that are to be used within one year but is not recognized on the balance sheet until due.	(33,455)
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Deferred Outflows of Resources represent deferred charges on refundings which do not provide current financial resources and therefore are not reported in the funds.	19,050
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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 the funds:		
Deferred Outflows - Pension	1,929,372	
Deferred Inflows - Pension	(1,659,603)	
Net Pension Liability	(19,751,832)	(19,482,063)

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
General Obligation Bonds - Serial	(1,285,000)	
General Obligation Bonds - Capital Appreciation	(70,000)	
Accretion on Capital Appreciation Bonds Interest	(118,566)	
Premiums on Serial and Capital Appreciation Bonds	(57,132)	
Qualified School Construction Bonds	(1,450,000)	
Compensated Absences Payable	(581,981)	(3,562,679)

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.	373,199
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<i>Net Position of Governmental Activities</i>	<b>\$24,519,927</b>
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See accompanying notes to the basic financial statements

**Wellston City School District, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2016*

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Property Taxes	\$2,054,326	\$216,541	\$2,270,867
Intergovernmental	14,963,420	3,196,310	18,159,730
Investment Earnings	27,666	4,881	32,547
Tuition and Fees	508,214	0	508,214
Rent	3,100	0	3,100
Extracurricular	24,971	92,657	117,628
Gifts and Donations	9,167	85,898	95,065
Charges for Services	541	85,894	86,435
Miscellaneous	5,077	193	5,270
<i>Total Revenues</i>	<u>17,596,482</u>	<u>3,682,374</u>	<u>21,278,856</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	7,106,246	485,660	7,591,906
Special	1,772,308	1,051,729	2,824,037
Vocational	44,052	0	44,052
Adult/Continuing	31,172	0	31,172
Student Intervention	388,195	1	388,196
Support Services:			
Pupils	462,921	65,415	528,336
Instructional Staff	390,206	409,420	799,626
Board of Education	166,350	7,500	173,850
Administration	1,144,900	125,185	1,270,085
Fiscal	434,085	28,781	462,866
Operation and Maintenance of Plant	1,877,982	122,986	2,000,968
Pupil Transportation	903,729	55,098	958,827
Central	44,426	40,432	84,858
Operation of Non-Instructional Services:			
Food Service Operations	0	732,693	732,693
Community Services	1,713	91,837	93,550
Other	0	0	0
Extracurricular Activities	232,154	126,397	358,551
Capital Outlay	100,000	2,160	102,160
Debt Service:			
Principal Retirement	162,000	220,000	382,000
Interest and Fiscal Charges	89,210	49,790	139,000
<i>Total Expenditures</i>	<u>15,351,649</u>	<u>3,615,084</u>	<u>18,966,733</u>
<i>Net Change in Fund Balance</i>	2,244,833	67,290	2,312,123
<i>Fund Balances Beginning of Year</i>	<u>5,875,253</u>	<u>1,957,481</u>	<u>7,832,734</u>
<i>Fund Balances End of Year</i>	<u>\$8,120,086</u>	<u>\$2,024,771</u>	<u>\$10,144,857</u>

See accompanying notes to the basic financial statements



**Wellston City School District, 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*

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**Net Change in Fund Balances - Total Governmental Funds** \$2,312,123

*Amounts reported for governmental activities in the statement of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays

Capital Asset Additions	589,781	
Depreciation Expense	<u>(1,209,270)</u>	(619,489)

Governmental funds report only the disposal of capital assets to the extent proceeds are received from the sale. In the Statement of Activities, a gain or loss is reported for each disposal.

Disposal of Capital Assets		(6,403)
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The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net change of the internal service fund is reported with governmental activities.

25,257

Revenues in the statement of activities that do not provide current financial resource: are not reported as revenues in the funds:

Delinquent Property Taxes	19,691	
Charges for Services	1,181	
Grants	65,013	
Miscellaneous	<u>(211)</u>	85,674

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position

382,000

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities. Premiums are reported as revenues when the debt is first issued; however, these amounts are deferred and amortized on the statement of activities:

Accrued Interest Payable	1,769	
Amortization of Serial Premium	9,522	
Amortization of Deferred Amount on Refunding	(3,175)	
Annual Accretion	<u>(30,199)</u>	(22,083)

Contractually required contributions are reported as expenditures in the governmental funds; however, the statement of net position reports these amounts as deferred outflows

1,124,614

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities

(868,776)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Vacation Benefits Payable	8,157	
Sick Leave Benefits Payable	<u>(57,691)</u>	<u>(49,534)</u>

*Change in Net Position of Governmental Activities*

\$2,363,383

See accompanying notes to the basic financial statements

**Wellston City School District, Ohio**  
*Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual (Budget Basis)  
General Fund  
For the Fiscal Year Ended June 30, 2016*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$1,954,960	\$2,058,670	\$2,055,672	(\$2,998)
Intergovernmental	12,736,629	14,925,914	14,914,842	(11,072)
Investment Earnings	11,386	24,886	27,666	2,780
Tuition and Fees	504,017	495,817	495,019	(798)
Rent	3,264	3,264	3,100	(164)
Miscellaneous	3,731	3,731	3,488	(243)
<i>Total Revenues</i>	<u>15,213,987</u>	<u>17,512,282</u>	<u>17,499,787</u>	<u>(12,495)</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	7,337,980	7,377,164	7,158,949	218,215
Special	1,832,979	1,884,406	1,787,347	97,059
Vocational	70,137	85,054	46,152	38,902
Adult/Continuing	30,000	42,000	31,172	10,828
Other	44,996	445,316	390,262	55,054
Support Services:				
Pupils	481,423	516,333	455,782	60,551
Instructional Staff	407,414	467,864	398,464	69,400
Board of Education	275,432	234,407	178,016	56,391
Administration	1,258,750	1,213,003	1,165,585	47,418
Fiscal	508,926	554,937	484,286	70,651
Operation and Maintenance of Plant	2,502,609	2,426,098	1,994,574	431,524
Pupil Transportation	1,275,130	1,173,478	1,108,356	65,122
Central	48,373	50,183	44,539	5,644
Extracurricular Activities	186,654	206,949	190,077	16,872
Capital Outlay	0	100,000	100,000	0
Debt Service				
Principal	0	162,000	162,000	0
Interest	0	89,210	89,210	0
<i>Total Expenditures</i>	<u>16,260,803</u>	<u>17,028,402</u>	<u>15,784,771</u>	<u>1,243,631</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(1,046,816)</u>	<u>483,880</u>	<u>1,715,016</u>	<u>1,231,136</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Capital Assets	8,700	620	0	(620)
Refund of Prior Year Expenditures	1,419	1,769	342	(1,427)
Transfers Out	0	0	(62,714)	(62,714)
Advances In	71,164	71,164	71,164	0
Advances Out	(25,000)	(85,000)	0	85,000
<i>Total Other Financing Sources (Uses)</i>	<u>56,283</u>	<u>(11,447)</u>	<u>8,792</u>	<u>20,239</u>
<i>Net Change in Fund Balance</i>	<u>(990,533)</u>	<u>472,433</u>	<u>1,723,808</u>	<u>1,251,375</u>
<i>Fund Balance Beginning of Year</i>	<u>6,627,529</u>	<u>6,627,529</u>	<u>6,627,529</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>297,299</u>	<u>297,299</u>	<u>297,299</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$5,934,295</u>	<u>\$7,397,261</u>	<u>\$8,648,636</u>	<u>\$1,251,375</u>

See accompanying notes to the basic financial statements

**Wellston City School District, Ohio**

*Statement of Fund Net Position  
Self-Insurance Internal Service Fund  
June 30, 2016*

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<b>Current Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$397,609</u>
<i>Total Assets</i>	<u>397,609</u>
<b>Current Liabilities</b>	
Claims Payable	<u>24,410</u>
<i>Total Liabilities</i>	<u>24,410</u>
<b>Net Position</b>	
Unrestricted	<u><u>\$373,199</u></u>

See accompanying notes to the basic financial statements

**Wellston City School District, Ohio**  
*Statement of Revenues, Expenses and Changes in Fund Net Position*  
*Self-Insurance Internal Service Fund*  
*For the Fiscal Year Ended June 30, 2016*

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<b>Operating Revenues</b>	
Charges for Services	<u>\$205,464</u>
<b>Operating Expenses</b>	
Purchased Services	18,200
Claims	<u>162,007</u>
<i>Total Operating Expenses</i>	<u>180,207</u>
<i>Operating Income</i>	25,257
<i>Net Position Beginning of Year</i>	<u>347,942</u>
<i>Net Position End of Year</i>	<u><u>\$373,199</u></u>

See accompanying notes to the basic financial statements

**Wellston City School District, Ohio**  
*Statement of Cash Flows*  
*Self-Insurance Internal Service Fund*  
*For the Fiscal Year Ended June 30, 2016*

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**Increase (Decrease) in Cash and Cash Equivalents**

**Cash Flows from Operating Activities**

Cash Received from Transactions with Other Funds	\$206,754
Cash Payments for Goods and Services	(18,502)
Cash Payments for Claims	<u>(169,271)</u>

Net Cash Provided by Operating Activities 18,981

*Cash and Cash Equivalents Beginning of Year* 378,628

*Cash and Cash Equivalents End of Year* \$397,609

**Reconciliation of Operating Income to Net**

**Cash Provided by Operating Activities**

Operating Income \$25,257

Changes in Assets and Liabilities:

Decrease in Accounts Receivable	1,290
Decrease in Claims Payable	<u>(7,566)</u>

Net Cash Provided by Operating Activities \$18,981

See accompanying notes to the basic financial statements

**Wellston City School District, Ohio**

*Statement of Net Position*

*Fiduciary Funds*

*June 30, 2016*

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	<u>Private Purpose Trust</u>	<u>Agency</u>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	<u>\$188,954</u>	<u>\$45,211</u>
<b>Liabilities</b>		
Due to Students	<u>0</u>	<u>\$45,211</u>
<b>Net Position</b>		
Restricted for Endowments	178,954	
Held in Trust for Scholarships	<u>10,000</u>	
Total Net Position	<u>\$188,954</u>	

See accompanying notes to the basic financial statements

**Wellston City School District, Ohio**  
*Statement of Changes in Net Position*  
*Private Purpose Trust Fund*  
*For the Fiscal Year Ended June 30, 2016*

	Private Purpose Trust
<b>Additions</b>	
Gifts and Contributions	\$8,928
Investment Earnings	508
Total Additions	9,436
<b>Deductions</b>	
Scholarships	9,000
<i>Change in Net Position</i>	436
<i>Net Position Beginning of Year</i>	188,518
<i>Net Position End of Year</i>	\$188,954

See accompanying notes to the basic financial statements

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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**Note 1 - Description of the School District and Reporting Entity**

Wellston City School 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 School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State statute and federal agencies. This Board of Education controls the School District's four instructional/support facilities staffed by 66 classified employees, 108 certified teaching personnel, and 8 administrators, who provide services to 1,537 students and other community members.

***Reporting Entity***

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Wellston City School District, this includes general operations, food service, preschool, vocational, and student related activities of the School District.

The following activity is included within the reporting entity:

***Parochial Schools*** The Saints Peter and Paul Catholic School operates within the School District boundaries. Current State legislation provides funding to this parochial school. These monies are received and disbursed on behalf of the parochial school by the Treasurer of the School District, as directed by the parochial school. The activity is reflected in a special revenue fund for financial reporting purposes.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes, and there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The School District has no component units.

The School District participates in the Metropolitan Educational Technology Association (META), the Gallia-Jackson-Vinton Joint Vocational School District, and the Coalition of Rural and Appalachian Schools which are defined as jointly governed organizations. The School District also participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan which is defined as an insurance purchasing pool. These organizations are presented in Notes 10 and 11.

**Note 2 - Summary of Significant Accounting Policies**

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (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 more significant of the School District's accounting policies are described below.



**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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**A. Basis of Presentation**

The School District's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**Government-wide Financial Statements** The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for the fiduciary fund. The activity of the Internal Service Fund is eliminated to avoid "doubling up" revenues and expenses. The statements usually distinguish between those activities that are governmental (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). The School District, however, has no business-type activities.

The statement of net position presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. 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 charges paid by the recipient of the goods or services offered by the program; grants and contributions that are restricted to meeting the operational or capital requirements of a particular program; and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

**Fund Financial Statements** During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The Internal Service Fund is presented on the face of the proprietary fund statements. Fiduciary funds are reported by type.

**B. Fund Accounting**

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

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

**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.

The other governmental funds of the School District account for grants and other resources whose use is restricted or committed to a particular purpose.

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
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**Proprietary Funds** Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are classified as either enterprise or internal service. The School District reports the following proprietary fund:

**Internal Service Fund** Internal service funds are used to account for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost-reimbursement basis. The Internal Service Fund is used to account for the reimbursement to employees for deductibles on their health insurance.

**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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's private purpose trust fund accounts for programs that provide college scholarships to students. Agency funds are custodial in nature (assets equals liabilities) and does not involve the measurement of results of operations. The School District's agency fund accounts for student activities and assets held by the School District as an agent for outside activities.

**C. Measurement Focus**

**Government-wide Financial Statements** The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net position. The statement of activities accounts for increases (revenues) and decreases (expenses) in total net position.

**Fund Financial Statements** All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (revenues and other financing sources) and uses (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 fund financial statements for governmental funds.

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the Statement of Fund Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The Statement of Cash Flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

**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 and the financial statements of the proprietary funds are prepared using the accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows/outflows of resources, and in the presentation of expenses versus expenditures.

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

Non-exchange transactions, in which the School 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 8). 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange 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/Inflows of Resources** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent 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 School District, deferred outflows of resources are reported in the government-wide statement of net position for deferred charges on refunding and for pension. 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. The deferred outflows of resources related to pension are explained in Note 17.

In addition to liabilities, the statements of financial position 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 until that time. For the School District, deferred inflows of resources include property taxes, pension, 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 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 School District, unavailable revenue includes delinquent property taxes, tuition and fees, miscellaneous revenue, and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported in the government-wide statement of net position. (See Note 17).

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

**Wellston City School District, Ohio**  
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the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

***E. Cash and Cash Equivalents***

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

During fiscal year 2016, investments were limited to non-negotiable certificates of deposit, which are reported at cost, and to the State Treasury Asset Reserve of Ohio (STAR Ohio).

During fiscal year 2016, the School District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue is credited to the General Fund; the Food Service, Education Foundation, and Classroom Maintenance Special Revenue Funds; the Bond Retirement Debt Service Fund; the Classroom Facilities Capital Projects Fund; and the Harless Scholarship Private Purpose Trust Fund. Interest revenue credited to the General Fund during fiscal year 2016 amounted to \$27,666, which includes \$3,086 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented as cash and cash equivalents.

***F. Inventory***

Inventories are presented at cost on a first-in, first-out basis and are expensed/expensed when used. Inventories consist of expendable supplies held for consumption and donated and purchased commodities held for resale.

***G. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond June 30, 2016, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

***H. Capital Assets***

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All of the School District’s capital assets are general capital assets resulting 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 fiscal year. The School District was able to estimate the historical cost for the initial reporting of certain assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their acquisition values as of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School District does not possess any infrastructure. 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.

All capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful life of the related capital asset. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Land Improvements	20 years
Buildings and Improvements	50 years
Furniture, Fixtures, and Equipment	5-20 years
Vehicles	10 years

***I. Internal Activity***

Transfers within governmental activities are eliminated on the government-wide statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Payments for interfund services provided and used aren’t eliminated.

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 and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

***J. Compensated Absences***

Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The liability for vacation benefits is recorded as “vacation benefits payable”, rather than long-term liabilities as the balances for most employees are to be used by employees in the fiscal year following the fiscal year in which the benefit was earned.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees’ wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for employees after fifteen years of service.

**Wellston City School District, Ohio**  
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The entire compensated absences liability is reported on the government-wide financial statements. On the governmental fund financial statements, sick leave benefits are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employee will be paid.

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

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities and long-term obligations payable from the proprietary fund are reported on the fund financial statements.

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

***L. Bond Premium and Deferred Charge on Refunding***

On the government-wide financial statements bond premiums are deferred and amortized over the term of the debt using the straight-line method. Bond premiums are presented as an addition to the face amount of the bonds.

On the governmental fund financial statements bond premiums are recognized in the period in which the debt is issued.

On the government-wide financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on the refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, whichever is shorter, using the effective interest method and is presented as deferred outflows of resources on the statement of net position.

***M. Fund Balance***

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

**Nonspendable:** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash.

**Restricted:** The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. Fund balance is reported as restricted when constraints placed on the use of the resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

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*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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**Committed:** The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action (resolution) of the Board of Education. Those committed amounts cannot be used for any other purpose unless the 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 the use in satisfying those contractual requirements.

**Assigned:** Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or 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 the Board of Education.

**Unassigned:** The unassigned fund balance is the residual classification for the General Fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report deficit balances.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are 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 the amounts in any of the unrestricted fund balance classifications can be used.

***N. Interfund Balances***

Interfund receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the statement of net position.

***O. Estimates***

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

***P. Net Position***

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Net position restricted for other purposes include trust revenues restricted to expenditure for specified purposes.

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

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
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***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. Budgetary Process***

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. Allocations of appropriations to the function and object levels are made by the Treasurer.

The Certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts in the amended certificate in effect when final appropriations for the fiscal year were passed.

The appropriation resolution is subject to amendment throughout the fiscal year with the restriction that appropriations may not exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

**Note 3 – Changes in Accounting Principle**

For fiscal year 2016, the School District implemented Governmental Accounting Standards Board (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;" GASB Statement No. 79, "Certain External Investment Pools and Pool Participants;" and GASB Statement No. 82, "Pension Issues an Amendment of GASB Statements No. 67, No. 68 and No. 73."

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the School District's fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.



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*Notes to the Basic Financial Statements*  
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GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68. The implementation of this GASB pronouncement did not result in any changes to the School District's financial statements.

GASB Statement No. 76 identifies-in the context of the current governmental financial reporting environment-the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The implementation of this GASB pronouncement did not result in any changes to the School District's financial statements.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance and also establishes additional note disclosure requirements for governments that participate in those pools. The School District incorporated the corresponding GASB 79 guidance into their fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the School District's fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

**Note 4 - Fund Deficits**

The following funds had deficit fund balances as of June 30, 2016:

	<u>Deficit</u>
<b>Special Revenue Funds:</b>	
Title VI-B Idea	\$36,680
Public Preschool	1,281
Athletic Accounts	20,611
Improving Teacher Quality Grant	448
Miscellaneous Federal Grants	725
Preschool Grants	207

These deficits resulted from the recognition of payables in accordance with Generally Accepted Accounting Principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**Note 5 - Budgetary Basis of Accounting**

While the School District is 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, disbursements, and encumbrances. The Statements of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget 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 GAAP (modified accrual) basis are as follows:

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
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1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than restricted, committed, or assigned fund balance (GAAP basis).
4. Advances In and Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
5. Budgetary revenues and expenditures of the Public School Support Fund and the Uniform School Supplies Fund are reclassified to the General Fund for GAAP reporting.
6. Prepaid and unrecorded items are reported on the balance sheet (GAAP basis), not on the budgetary basis.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

	Net Change in Fund Balance
GAAP Basis	\$2,244,833
Revenue Accruals	(47,232)
Expenditure Accruals	(95,919)
Prepaid Items:	
Beginning of Fiscal Year	199,777
End of Fiscal Year	(23,515)
To reclassify excess of revenues and other sources of financial resources over expenditures into financial statement fund types	(9,364)
Advances In	71,165
Advances Out	(62,715)
Encumbrances	(553,222)
Budget Basis	<u><u>\$1,723,808</u></u>

**Wellston City School District, Ohio**  
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**Note 6 - Fund Balances**

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General Fund	Other Governmental Funds	Total
Nonspendable:			
Scholarships	\$23,515	\$0	\$23,515
Materials and Supplies Inventory	0	2,602	2,602
<i>Total Nonspendable</i>	<u>23,515</u>	<u>2,602</u>	<u>26,117</u>
Restricted for:			
Food Service Operations	0	63,801	63,801
Local Grant Expenditures	0	7,839	7,839
State Grant Expenditures	0	41,316	41,316
Federal Grant Expenditures	0	3,955	3,955
Debt Service Payments	0	873,503	873,503
Capital Improvements	0	402,256	402,256
Scholarships	0	15,770	15,770
<i>Total Restricted</i>	<u>0</u>	<u>1,408,440</u>	<u>1,408,440</u>
Committed to:			
Scholarships	310,284	7,500	317,784
<i>Total Committed</i>	<u>310,284</u>	<u>7,500</u>	<u>317,784</u>
Assigned to:			
Classroom Supplies	75,962	0	75,962
Encumbrances	92,066	0	92,066
Capital Improvements	0	666,181	666,181
Fiscal Year 2017 Appropriations	768,691	0	768,691
<i>Total Assigned</i>	<u>936,719</u>	<u>666,181</u>	<u>1,602,900</u>
Unassigned:	6,849,568	(59,952)	6,789,616
<i>Total Fund Balances</i>	<u><u>\$8,120,086</u></u>	<u><u>\$2,024,771</u></u>	<u><u>\$10,144,857</u></u>

**Note 7 - Deposits and Investments**

Monies held by the School District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the School District treasury. Active monies must be maintained either as cash in the School 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.

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Interim monies held by the School District can 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 obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debenture, 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, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, and with certain limitation bonds and other obligations of political subdivisions of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided 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 the term of the agreement must not exceed thirty days.

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. Investments may only be made through specified dealers and institutions.

**Deposits** Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$893,649 of the School District's bank balance of \$6,517,467 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

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**Investments** As of June 30, 2016, the School District's investment in STAR Ohio had an average maturity of 48.6 days and a fair value of \$5,591,674. The School District's STAR Ohio investment comprises over 99 percent of total investments.

**Interest Rate Risk** The School District's investment policy addresses interest rate risk to the extent that it allows the Treasurer to invest funds to a maximum maturity of five years, and allows for the withdrawal of funds from approved public depositories or sale of negotiable instruments prior to maturity. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

**Credit Risk** STAR Ohio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy dealing with investment credit risk beyond the requirements in State statutes.

**Custodial Credit Risk** For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial credit 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.

**Concentration of Credit Risk** The School District places no limit on the amount it may invest in any one issuer. The percentage of total investments is listed above.

## **Note 8 - Property Taxes**

Property taxes are levied and assessed on a calendar year basis while the School District's fiscal year runs from July through June. First half tax collections are received by the School 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 and public utility property located in the School District. Real property tax revenue received in calendar year 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State statute at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2016 represents collections of calendar year 2015 taxes. Public utility real property taxes received in calendar year 2016 became a lien December 31, 2014, were levied after April 1, 2015, and are collected in 2016 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Jackson County. The County Auditor periodically advances to the School 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 to be advanced can vary based on the date the tax bills are sent.

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Accrued property taxes receivable includes real property and public utility 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 reflected 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 of resources – property taxes.

The amount available as an advance at June 30, 2016, was \$134,654 in the General Fund, \$11,495 in the Bond Retirement Debt Service Fund, and \$3,284 in the Classroom Facilities Maintenance Special Revenue Fund. The amount available as an advance at June 30, 2015, was \$136,000 in the General Fund, \$11,610 in the Bond Retirement Debt Service Fund, and \$3,317 in the Classroom Facilities Maintenance Special Revenue Fund.

On an accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

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

	2015 Second Half Collections		2016 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$87,386,870	78.44%	\$87,386,060	76.13%
Commerical/Industrial and Public Utility Real	15,822,980	14.20%	15,964,690	13.91%
Public Utility Personal	8,203,600	7.36%	11,436,530	9.96%
	\$111,413,450	100.00%	\$114,787,280	100.00%
Tax Rate per \$1,000 of assessed valuation		\$22.75		\$22.75

**Note 9 - Receivables**

Receivables at June 30, 2016, consisted of property taxes, interfund, accounts, accrued interest, and intergovernmental grants. 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 fiscal year guarantee of federal funds. All receivables except property taxes are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

**Wellston City School District, Ohio**  
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A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	Amounts
Foundation	\$41,713
Lunchroom	17,847
Public Preschool	13,962
High Schools that Work	2,039
IDEA-B	62,060
Parent Mentor	6,540
Title I	270,683
Handicapped Preschool	2,794
Improving Teacher Quality	22,710
Total	\$440,348

**Note 10 - Jointly Governed Organizations**

***A. Metropolitan Educational Technology Association (META)***

The School District participates in the Metropolitan Educational Technology Association (META), formed from the merger of the Metropolitan Educational Council (MEC) and the Southeastern Ohio Voluntary Education Cooperative (SEOVEC) during fiscal year 2016, which is a jointly governed organization, created as a regional council of governments pursuant to Chapter 167 of the Ohio Revised Code. META operates as, and has all the powers of, a data acquisition site/information technology center pursuant to applicable provisions of the Ohio Revised Code. The organization was formed for the purpose of identifying, developing, and providing to members and nonmembers innovative educational and technological services and products, as well as expanded opportunities for cooperative purchasing. The General Assembly of META consists of one delegate from every member school district. The delegate is the superintendent of the school district or the superintendent's designee. The degree of control exercised by any participating school district is limited to its representation on the General Assembly. The General Assembly exercises total control over the operation of META including budgeting, appropriating, contracting, and designating management. During 2016, the School District paid \$79,732 for services with META/MEC/SEOVEC. Financial information can be obtained from Metropolitan Educational Technology Association at 100 Executive Drive, Marion, Ohio 43302.

***B. Gallia-Jackson-Vinton Joint Vocational School District***

The Gallia-Jackson-Vinton Joint Vocational School District is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the various City and County Boards within Gallia, Jackson, and Vinton Counties. The Board possesses its own budgeting and taxing authority. During fiscal year 2016, the School District paid \$15,167 to the Gallia-Jackson-Vinton Joint Vocational School District. To obtain financial information write to the Gallia-Jackson-Vinton Joint Vocational School District, Donalyn Smith who serves as Treasurer, P.O. Box 157, Rio Grande, Ohio, 45674.

***C. Coalition of Rural and Appalachian Schools***

The Coalition of Rural and Appalachian Schools (CORAS) is a jointly governed organization composed of over 130 school districts and other educational institutions in the 35-county region of Ohio designated as Appalachia. The Coalition is operated by a board which is composed of seventeen members. One elected and one appointed from each of the seven regions into which the 35 Appalachian counties are divided; and three from Ohio University College of Education. The board exercised total control over the operations of CORAS including budgeting, appropriating, contracting, and designating management. Each participant's control is limited to its representation on the board. The Coalition provides various in-service training programs for school district administrative personnel; gathers data regarding the level of education provided to children in

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the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Coalition. During fiscal year 2016, the School District made a payment of \$325 for the fiscal year 2016 membership fee. Financial information may be obtained from the Coalition of Rural and Appalachian Schools at Lindley Hall Room 200, Ohio University, Athens, Ohio 45701.

**Note 11 - Insurance Purchasing Pools**

***Ohio School Boards Association Workers' Compensation Group Rating Plan***

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

**Note 12 - Interfund Balances**

Interfund balances at June 30, 2016, arise from the provision of cash flow resources from the General Fund until the receipt of grant monies or other program revenues by the Special Revenue Funds, or the receipts of property tax revenue in the Bond Retirement Debt Service Fund.

	Interfund Receivables	Interfund Payables
<b>General Fund</b>	\$174,169	\$0
<b>Other Governmental Funds:</b>		
Bond Retirement	0	6,395
Food Service	0	53,500
Athletics	0	35,424
High Schools That Work	0	250
Public Preschool	0	4,065
Title VI-B	0	48,309
Title I	0	23,795
Early Childhood	0	119
Title II-A	0	2,312
Total Other Governmental Funds	0	174,169
Total All Funds	\$174,169	\$174,169

**Note 13 - Contingencies**

***A. Grants***

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure 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 General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2016, if applicable, cannot be determined at this time.



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***B. Litigation***

The School District is currently not party to any legal proceedings.

***C. School Foundation***

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for fiscal year 2015, traditional school 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 Career Center, 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 School District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this may result in either a receivable to or a liability of the School District.

**Note 14 - Significant Commitments**

***A. Contractual Commitments***

As of June 30, 2016, the School District's contractual purchase commitments are as follows:

Project	Contract Amount	Amount Expended	Balance at 06/30/16
Chiller Project	\$118,000	\$106,200	\$11,800
HVAC Controls Update	194,731	62,434	132,297
Paving Project	191,460	0	191,460

***B. Encumbrances***

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

Fund	Amount
General	\$553,960
Nonmajor Governmental Funds	99,076
<b>Total</b>	<b>\$653,036</b>

**Note 15 - Risk Management**

***A. Property and Liability***

The School District is exposed to various risks of loss related to torts; theft of; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016, the School District contracted with the Netherlands Insurance Company for coverage:

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Property	Deductible	Limits of Coverage
Building and Contents - Replacement Cost	\$5,000	\$55,226,127
General Liability:		
Each Occurrence		10,000,000
Aggregate Limit		
Products - Completed Operations Aggregate Limit		10,000,000
Personal and Advertising Injury Limit - Each Offense		10,000,000
Employers' Liability:		
Each Occurrence		1,000,000
Disease - Each Employee		1,000,000
Disease - Policy Limit		1,000,000
Employee Benefits Liability:		
Each Occurrence	1,000	1,000,000
Aggregate Limit		3,000,000
Vehicles:		
Bodily Injury:		
Per Accident		1,000,000
Uninsured Motorist:		
Per Accident		1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. The School District reviewed its various policies and made modifications were deemed appropriate.

***B. Workers' Compensation***

For fiscal year 2016, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 11). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

***C. Medical Expense Reimbursement Plan***

The School District has a Medical Expense Reimbursement Plan, Max 105, to reimburse eligible employees (those that are participating in the School District's health plan) for the portion of their and their dependents' health claims. The Max 105 program is a combination of benefits that are provided by the School District, United Healthcare, and Patrick Benefits Administrators. The School District's health plan with United Healthcare covers the employees' major medical costs.

The policy is a high deductible plan. The Max 105 program covers the difference between the high deductible plan with United Healthcare and the employees' personal deductible.

The purpose of the Max 105 program is to reimburse employees covered under the Max 105 program for a portion of the uninsured medical expenses they incur each year while they are employed with the School District and the Max 105 remains in effect. It is intended to assist employees and their dependents in receiving medical care needed in the most cost-effective manner possible.

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The claims paid are those submitted after the employee's deductible amount has been reached, but before the employer's health plan deductible with United Healthcare has been reached. Claims covered are for amounts applied to the medical deductible and co-insurance expenses incurred during the plan year, up to the employer's health plan annual deductible amount with United Healthcare.

Changes in claims activity for the current and preceding fiscal years are as follows:

Fiscal Year	Balance at Beginning of Fiscal Year	Current Fiscal Year Claims	Claims Payments	Balance at End of Fiscal Year
2015	\$43,194	\$144,236	\$155,756	\$31,674
2016	31,674	162,007	169,271	24,410

**Note 16 - Capital Assets**

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

	Balance at 6/30/15	Additions	Deductions	Balance at 6/30/16
Capital Assets:				
Capital Assets not being Depreciated:				
Land	\$189,885	\$0	\$0	\$189,885
Construction in Progress	0	209,004	0	209,004
Total Non-Depreciable Capital Assets	189,885	209,004	0	398,889
Depreciable Capital Assets:				
Land Improvements	608,375	0	0	608,375
Buildings and Improvements	44,403,335	100,000	0	44,503,335
Furniture, Fixtures, and Equipment	4,239,955	280,777	(34,045)	4,486,687
Vehicles	522,868	0	0	522,868
Total Depreciable Capital Assets	49,774,533	380,777	(34,045)	50,121,265
Less Accumulated Depreciation:				
Land Improvements	(320,326)	(49,610)	0	(369,936)
Buildings and Improvements	(9,444,571)	(852,235)	0	(10,296,806)
Furniture, Fixtures, and Equipment	(3,063,073)	(254,360)	27,642	(3,289,791)
Vehicles	(244,860)	(53,065)	0	(297,925)
Total Accumulated Depreciation	(13,072,830)	(1,209,270) *	27,642	(14,254,458)
Total Capital Assets being Depreciated, Net	36,701,703	(828,493)	(6,403)	35,866,807
Capital Assets, Net	\$36,891,588	(\$619,489)	(\$6,403)	\$36,265,696

**Wellston City School District, Ohio**  
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\*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$514,329
Special	250,707
Support Services:	
Pupils	44,996
Instructional Staff	44,996
Administration	102,907
Fiscal	19,269
Operation and Maintenance of Plant	57,911
Pupil Transportation	80,367
Central	6,458
Food Service Operations	25,058
Extracurricular Activities	62,272
Total Depreciation Expense	<u><u>\$1,209,270</u></u>

**Note 17 - Defined Benefit Pension Plans**

**A. 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 School 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.

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

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.

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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 *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

***Plan Description - School Employees Retirement System (SERS)***

Plan Description – School 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](http://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 on or 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 year 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.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School 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 allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The School District’s contractually required contribution to SERS was \$254,293 for fiscal year 2016. Of this amount \$28,452 is reported as an intergovernmental payable.

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***Plan Description - State Teachers Retirement System (STRS)***

Plan Description – School 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 Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. 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 is 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 year 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, 11 percent of the 12 percent member rate goes to the DC Plan and 1 percent goes to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member 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 services. 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.

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 that apply for disability benefits. Members in the DC Plan who become disabled are

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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. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. Effective July 1, 2016, the statutory maximum employee contribution rate was increased one percent to 14 percent. The School 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 School District's contractually required contribution to STRS was \$870,321 for fiscal year 2016. Of this amount \$111,719 is reported as an intergovernmental 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 School District's proportion of the net pension liability was based on the School 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>	
Proportion of the Net Pension Liability Prior Measurement Date	0.06041000%	0.06055354%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.06055170%</u>	<u>0.05896678%</u>	
Change in Proportionate Share	<u>0.00014170%</u>	<u>-0.00158676%</u>	
			<u>Total</u>
Proportionate Share of the Net Pension Liability	\$3,455,139	\$16,296,693	\$19,751,832
Pension Expense	\$220,987	\$647,789	\$868,776

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

	SERS	STRS	Total
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$55,634	\$742,923	\$798,557
Changes in proportionate Share and difference between School District contributions and proportionate share of contributions	6,201	0	6,201
School District contributions subsequent to the measurement date	254,293	870,321	1,124,614
Total Deferred Outflows of Resources	\$316,128	\$1,613,244	\$1,929,372
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$114,480	\$1,172,040	\$1,286,520
Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions	0	373,083	373,083
Total Deferred Inflows of Resources	\$114,480	\$1,545,123	\$1,659,603

\$1,929,372 reported as deferred outflows of resources related to pension resulting from School 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:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2017	(\$39,593)	(\$357,762)	(\$397,355)
2018	(39,593)	(357,762)	(397,355)
2019	(39,856)	(357,762)	(397,618)
2020	66,397	271,086	337,483
Total	(\$52,645)	(\$802,200)	(\$854,845)

***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.



**Wellston City School District, Ohio**  
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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 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, 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 an arithmetic weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

<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><u>100.00 %</u></u>	

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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**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 earning 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 School 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%)
School District's proportionate share of the net pension liability	\$4,791,036	\$3,455,139	\$2,330,203

**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	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

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.

STRS’ investment consultant develops best estimates for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

**Wellston City School District, Ohio**  
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Asset Class	Target Allocation	10 Year Expected Nominal Rate of Return *
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	1.00	3.00
Total	100.00 %	

\* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent.

**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 payment to determine the total pension liability as of June 30, 2015.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the School 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 School 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:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$22,637,336	\$16,296,693	\$10,934,734

**Note 18 - Postemployment Benefits**

**A. School Employee Retirement System**

Health Care Plan Description - The School 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,

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
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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](http://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, the 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, no allocation of covered payroll 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 School District's surcharge obligation was \$30,401.

The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$14,976, and \$33,316, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

***B. State Teachers Retirement System***

Plan Description – The State Teachers Retirement System of Ohio (STRS Ohio) administers a cost-sharing multiple-employer defined benefit Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. 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 Ohio which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2016 and June 30, 2015, STRS Ohio did not allocate any employer contributions to post-employment health care. For the fiscal year ended June 30, 2014, one percent of covered payroll was allocated to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015 and 2014 were \$0, \$0 and \$59,078, respectively. The full amount has been contributed for 2016, 2015 and 2014.

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
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**Note 19 - Employee Benefits**

***A. Compensated Absences***

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn five to twenty-five days of vacation per fiscal year, depending upon length of service. At fiscal year end, up to ten vacation days can be carried over for not more than one fiscal year. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. There is no limit to sick leave accrual. Upon retirement, payment is made to certificated employees at 35 percent up to a maximum of 59.5 days, and at 35 percent for classified employees up to a maximum of 60 days.

***B. Insurance Benefits***

The School District provides life insurance and accidental death and dismemberment insurance to classified and administrative employees in the amount of \$40,000.

Health insurance is provided through Anthem. Monthly premiums for this coverage are \$2,177 for family coverage and \$726 for single coverage. Dental insurance is provided by CoreSource and vision insurance is provided by Anthem. Monthly premiums for dental coverage are \$67 for family coverage and \$27 for single coverage. Monthly premiums for vision coverage are \$2 for family coverage and \$0.80 for single. The School District pays 91% of certified staff premiums and 95% of non-certified staff.

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

**Note 20 - Long-Term Obligations**

Changes in long-term obligations of the School District during fiscal year 2016 were as follows:

	Principal Outstanding 6/30/15	Additions	Deductions	Principal Outstanding 6/30/16	Amounts Due Within One Year
<b>Governmental Activities:</b>					
1999 3.30% - 5.85% School Construction General Obligation Bonds	\$410,000	\$0	\$200,000	\$210,000	\$210,000
2011 1.00% - 3.15% Classroom Facilities Refunding Bonds:					
Serial Bonds	1,095,000	0	20,000	1,075,000	20,000
Capital Appreciation Bonds	70,000	0	0	70,000	0
Accretion of Capital Appreciation Bonds	88,367	30,199	0	118,566	0
Serial Bond Premium	66,654	0	9,522	57,132	0
2011 6.50% Qualified School Construction Bonds	1,612,000	0	162,000	1,450,000	169,000
<b>Total Bonds Payable</b>	<b>3,342,021</b>	<b>30,199</b>	<b>391,522</b>	<b>2,980,698</b>	<b>399,000</b>
 Net Pension Liability					
STRS	14,728,717	1,567,976	0	16,296,693	0
SERS	3,057,317	397,822	0	3,455,139	0
<b>Total Net Pension Liability</b>	<b>17,786,034</b>	<b>1,965,798</b>	<b>0</b>	<b>19,751,832</b>	<b>0</b>
 Sick Leave Benefits	524,290	60,300	2,609	581,981	3,450
 Total Governmental Activities Long-Term Liabilities	<b>\$21,652,345</b>	<b>\$2,056,297</b>	<b>\$394,131</b>	<b>\$23,314,511</b>	<b>\$402,450</b>

Compensated absences will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund and the Food Service, Title VI-B Idea, Title I, and the Improving Teacher Quality Special Revenue Funds. The School District pays obligations related to employee compensation from the fund benefitting from their service. See Note 17 for additional information related to net pension liability.

**School Construction General Obligation Bonds** The School District issued general obligation bonds for \$3,656,000 as a result of the School District being approved for a \$31,072,412 school facilities loan through the Ohio School Facilities Commission for additions to the elementary school, and the construction of a new middle school and high school. The School District issued the bonds on June 9, 1999, to provide the required local match for the school facilities loan. During fiscal year 2011, the School District refunded \$1,270,000 of the general obligation bonds. The remaining outstanding bonds are being retired from the Debt Service Fund. As a requirement of the loan, the School District was required to pass a 5.8 mill levy. 5.3 mills will be used to repay the debt issue which provided the matching funds required of the School District. The remaining .5 mills are used for facilities maintenance.

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2016

Principal and interest requirements to retire the General Obligation Bonds outstanding at June 30, 2016, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$210,000	\$6,142	\$216,142

***Classroom Facilities Refunding Bonds*** On September 13, 2010, the School District issued \$1,270,000 of Classroom Facilities Refunding Bonds to partially retire the 1999 School Construction General Obligation Bonds. The bonds were issued for an 11 year period with final maturity at December 1, 2021. The bond issue included serial and capital appreciation bonds in the amounts of \$1,200,000 and \$70,000, respectively. These refunding bonds were issued with a premium of \$114,264, which is reported as an increase to bonds payable. The amount is amortized to interest expense over the life of the bonds using the straight-line method. The amortization of the premium for fiscal year 2015 was \$9,522. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$38,100. This difference, reported as a deferred outflow of resources, is being amortized to interest expense over the life of the refunded bonds using the straight-line method. The amortization of the difference for fiscal year 2016 was \$3,175.

The capital appreciation bonds for the 2010 issue mature on December 1, 2017. The bonds were purchased at a substantial discount at the time of issuance. At maturity, all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as a principal liability. The maturity amount of the bond is \$245,000. Accretion for fiscal year 2016 was \$30,199 and total accretion as of June 30, 2016, was \$118,566.

Principal and interest requirements to retire the Classroom Facilities Refunding Bonds outstanding at June 30, 2016, are as follows:

Fiscal Year Ending June 30,	Serial		Capital Appreciation		Total	
	Principal	Interest	Principal	Accretion	Principal	Accretion/ Interest
2017	\$20,000	\$31,230	\$0	\$0	\$20,000	\$31,230
2018	0	31,005	70,000	175,000	70,000	206,005
2019	250,000	27,724	0	0	250,000	27,724
2020	260,000	20,672	0	0	260,000	20,672
2021	265,000	12,861	0	0	265,000	12,861
2022	280,000	4,410	0	0	280,000	4,410
	<u>\$1,075,000</u>	<u>\$127,902</u>	<u>\$70,000</u>	<u>\$175,000</u>	<u>\$1,145,000</u>	<u>\$302,902</u>

The capital appreciation bonds, issued at \$70,000, are not subject to prior redemption.

***Qualified School Construction Bonds (QSCB)*** On October 19, 2010, the School District issued \$1,690,000 of Qualified School Construction Bonds (QSCB), in accordance with the American Recovery and Reinvestment Act of 2009 (ARRA). These bonds were issued for the purpose of improving and reducing energy consumption in each of the School District's instructional facilities. The QSCB was issued through a series of lease agreements and trust indentures in accordance with Section 3313.375 of the Ohio Revised Code.

In accordance with the lease terms, the project assets are leased to the All Points Capital Corporation, and then subleased back to the School District.

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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The QSCB was issued through a series on annual leases with an initial lease term of fifteen years which includes the right to renew for fifteen successive one-year leases through December 1, 2024, subject to annual appropriations. To satisfy trustee requirements, the School District is required to make annual base rent payments, subject to lease terms and appropriations, annually. On February 15, 2012, an additional \$500,000 was issued through the use of an addendum to the agreement between the School District and All Points Capital Corporation.

Annual base rent requirements to retire the Qualified School Construction Bonds outstanding at June 30, 2016, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$169,000	\$79,892	\$248,892
2018	171,000	70,342	241,342
2019	172,000	60,740	232,740
2020	179,000	50,923	229,923
2021	181,000	40,873	221,873
2022-2025	578,000	69,590	647,590
	<u>\$1,450,000</u>	<u>\$372,360</u>	<u>\$1,822,360</u>

The bonds were subject to extraordinary mandatory redemption, in whole or in part, if an extension negotiated with the IRS, on a credit allowance date that occurred on or before September 27, 2013, in authorized denominations, at a redemption price equal to the principal amount of the bonds called for redemption plus accrued interest thereon to the redemption date, in an amount equal to the unexpended proceeds of the sale of the bonds held by the School District, but only to the extent that the School District failed to expend all of the proceeds of the bonds within three years of issuance thereof and no extension of the period for expenditure has been granted by the IRS.

Upon a determination of Loss of Qualifies School Construction Bond status, the Tax Credit bonds are subject to extraordinary mandatory redemption prior to their fixed maturity date, in whole, on the date designated by the School District, which date shall be a date prior to the January 15 following the next succeeding August 1, after a Determination of Loss of Qualified School Construction Bond status, at a redemption price equal to (i) the principal amount of the Tax Credit Bonds called for redemption, plus (ii) the redemption premium, plus (iii) accrued interest on the principal amount of the Tax Credit Bonds called for redemption plus the interest owed from the supplemental coupon from the Tax Credit Allowance Date immediately preceding the redemption date, to the date of redemption.

As part of the ARRA Act of 2009, issuers of QSCBs are eligible to receive direct payments from the federal government which offset interest payments on the bonds. As an alternate, QSCBs may be issued as tax credit bonds under which bond holders receive federal tax credits in lieu of interest as a means to significantly reduce the issuer's interest cost. The School District, under agreement with the federal government, has chosen to receive a thirty-five percent semi-annual direct payment from the federal government to help offset interest expense on the QSCBs.

As part of the Qualified School Construction Bonds issuance, the School District, pursuant to Section 3317.18, Ohio Revised Code, and Section 3301-8-01, Ohio Administrative Code, participated in the Ohio Credit Enhancement Program, and was assigned a rating of AA/Negative from Standard & Poor's for the bond issuance. In the event the School District is unable to make sufficient debt service payments and the payment will not be made by a credit enhancement facility, the Ohio Department of Education will make the sufficient payment.



**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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The School District's overall legal debt margin was \$9,849,358, with an unvoted debt margin of \$114,787 at June 30, 2016.

**Note 21 - Set-Aside Calculations**

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by fiscal year-end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future years. In prior fiscal years, the School District was also required to set aside money for budget stabilization and textbooks.

Effective April 10, 2001, through Amended Substitute Senate Bill 345, the requirements for school districts to establish and appropriate money for the budget stabilization was deleted from law.

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

	Capital Improvements
Set-Aside Balance as of as of June 30, 2015	\$0
Current Fiscal Year Set-Aside Requirement	256,335
Current Fiscal Year Offsets	(37,922)
Qualifying Expenditures	(375,656)
Totals	(\$157,243)
Set-Aside Balance Carried Forward to Future Fiscal Years	\$0

The School District had qualifying expenditures and offsets during the fiscal year that reduced the capital improvements set-aside amount below zero. This extra amount represents excess qualifying disbursements and may not be carried forward.

**Wellston City School District, Ohio**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net Pension Liability*  
*School Employees Retirement System of Ohio*  
*Last Three Fiscal Years (1)*

	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.06055170%	0.060410%	0.060410%
School District's Proportionate Share of the Net Pension Liability	\$3,455,139	\$3,057,317	\$3,592,390
School District's Covered-Employee Payroll	\$1,826,328	\$1,768,182	\$1,646,298
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	189.19%	172.91%	218.21%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available.

Amounts presented as of the School District's measurement date which is the prior fiscal year end.

**Wellston City School District, Ohio**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net Pension Liability*  
*State Teachers Retirement System of Ohio*  
*Last Three Fiscal Years (1)*

	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.05896678%	0.06055354%	0.06055354%
School District's Proportionate Share of the Net Pension Liability	\$16,296,693	\$14,728,717	\$17,544,751
School District's Covered-Employee Payroll	\$6,147,750	\$6,168,177	\$6,131,700
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	265.08%	238.79%	286.13%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available.

Amounts presented as of the School District's measurement date which is the prior fiscal year end.

**Wellston City School District, Ohio**  
*Required Supplementary Information*  
*Schedule of the School District Contributions*  
*School Employees Retirement System of Ohio*  
*Last Ten Fiscal Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$254,293	\$240,710	\$245,070	\$227,848
Contributions in Relation to the Contractually Required Contribution	<u>(254,293)</u>	<u>(240,710)</u>	<u>(245,070)</u>	<u>(227,848)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered-Employee Payroll	\$1,816,379	\$1,826,328	\$1,768,182	\$1,646,298
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>
\$233,780	\$222,243	\$229,838	\$175,741	\$174,244	\$185,344
<u>(233,780)</u>	<u>(222,243)</u>	<u>(229,838)</u>	<u>(175,741)</u>	<u>(174,244)</u>	<u>(185,344)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,738,142	\$1,768,044	\$1,697,473	\$1,785,985	\$1,774,378	\$1,735,431
13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

**Wellston City School District, Ohio**  
*Required Supplementary Information*  
*Schedule of the School District Contributions*  
*State Teachers Retirement System of Ohio*  
*Last Ten Fiscal Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$870,321	\$860,685	\$801,863	\$797,121
Contributions in Relation to the Contractually Required Contribution	<u>(870,321)</u>	<u>(860,685)</u>	<u>(801,863)</u>	<u>(797,121)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered-Employee Payroll	\$6,216,579	\$6,147,750	\$6,168,177	\$6,131,700
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.02%	13.00%

2012	2011	2010	2009	2008	2007
\$863,631	\$850,097	\$892,133	\$895,391	\$819,036	\$872,884
(863,631)	(850,097)	(892,133)	(895,391)	(819,036)	(872,884)
\$0	\$0	\$0	\$0	\$0	\$0
\$6,643,315	\$6,539,208	\$6,862,562	\$6,887,623	\$6,300,277	\$6,714,492
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**WELLSTON CITY SCHOOL DISTRICT**  
Schedule of Federal Awards Receipts and Expenditures  
For the Fiscal Year Ended June 30, 2016

Federal Grantor / Pass Through Grantor / Program Title	Grant Year	Federal CFDA Number	Pass through to Subrecipient	Cash Receipts	Non-Cash Receipts	Cash Expenditures	Non-Cash Expenditures
<b>U.S. Department of Agriculture</b>							
<i>Passed Through Ohio Department of Education:</i>							
<i>Nutrition Cluster:</i>							
School Breakfast Program	2015/2016	10.553	\$0	\$181,831	\$0	\$181,831	\$0
National School Lunch Program	2015/2016	10.555	0	452,950	41,498	452,950	41,498
<i>Total Nutrition Cluster</i>			0	634,781	41,498	634,781	41,498
School Meals Equipment	2015	10.579	0	5,047	0	5,047	0
Total School Meals Equipment			0	5,047	0	5,047	0
<b>Total U.S. Department of Agriculture</b>			0	639,828	41,498	639,828	41,498
<b>U.S. Department of Education</b>							
<i>Passed Through Ohio Department of Education:</i>							
<i>Title I Cluster:</i>							
Title I Grants to Local Educational Agencies	2015	84.010	0	201,242	0	201,242	0
Title I Grants to Local Educational Agencies	2016	84.010	0	697,901	0	721,696	0
<i>Total Title I Cluster</i>			0	899,143	0	922,938	0
<i>Special Education Cluster:</i>							
Special Education - Grants to States (IDEA Part B)	2015	84.027	0	76,271	0	76,271	0
Special Education - Grants to States (IDEA Part B)	2016	84.027	0	348,920	0	360,789	0
Special Education - Preschool Grants	2015	84.173	0	2,312	0	2,312	0
Special Education - Preschool Grants	2016	84.173	0	11,824	0	11,943	0
<i>Total Special Education Cluster</i>			0	439,327	0	451,315	0
Twenty-First Century Community Learning Centers	2016	84.287	0	700,009	0	700,009	0
Total Twenty-First Century Community Learning Centers			0	700,009	0	700,009	0
Rural Education	2015	84.358	0	2,158	0	2,158	0
Rural Education	2016	84.358	0	26,198	0	26,198	0
Total Rural Education			0	28,356	0	28,356	0
Improving Teacher Quality	2015	84.367	0	19,166	0	19,166	0
Improving Teacher Quality	2016	84.367	0	96,837	0	99,148	0
Total Improving Teacher Quality			0	116,003	0	118,314	0
State Fiscal Stabilization Fund (SFSF)- Race to the Top Incentive Grants, Recovery Act	2015	84.395	0	1,644	0	4,588	0
Total Race to the Top Incentive			0	1,644	0	4,588	0
<b>Total U.S. Department of Education</b>			0	2,184,482	0	2,225,520	0
<b>Total Federal Financial Assistance</b>			\$0	\$2,824,310	\$41,498	\$2,865,348	\$41,498

The accompanying notes to the Schedule of Federal Awards Revenues and Expenditures are an integral part of the Schedule.



**WELLSTON CITY SCHOOL DISTRICT**  
*Notes to the Schedule of Expenditures of Federal Awards*  
For the Fiscal Year Ended June 30, 2016

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**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Wellston City School District's (the School District) under programs of the federal government for the fiscal year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements for Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the School District.

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The School District has elected not to use the 10-percent de minimis indirect cost rate as allowed under Uniform Guidance.

**NOTE C - CHILD NUTRITION CLUSTER**

The School District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School District assumes it expends federal monies first.

**NOTE D – FOOD DONATION PROGRAM**

The School District reports commodities consumed on the Schedule at the entitlement value. The School District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

**Independent Auditor's Report on Internal Control over Financial  
Reporting and on Compliance and Other Matters Required by  
*Government Auditing Standards***

Board of Education  
Wellston City School District  
1 E Broadway Street  
Wellston, Ohio 45692

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wellston City School District (the School District), Jackson County, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated December 13, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of supporting our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weakness or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Education  
Wellston City School District  
Independent Auditor's Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards*

## **Compliance and Other Matters**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*J. L. Uhrig and Associates, Inc.*

J. L. UHRIG AND ASSOCIATES, INC.  
Chillicothe, Ohio

December 13, 2016

**Independent Auditor's Report on Compliance with Requirements Applicable for Each Major Program  
and on Internal Control over Compliance Required by Uniform Guidance**

Board of Education  
Wellston City School District  
1 E Broadway Street  
Wellston, Ohio 45692

**Report on Compliance for Each Major Federal Program**

We have audited the Wellston City School District (the School District), Jackson County, compliance with the types of applicable requirements described in the U.S. Office of Management and Budget (OMB), *Compliance Supplement* that could directly and materially affect the School District's major federal programs for the year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the School District's major federal program.

***Management's Responsibility***

The School District's Management is responsible for complying with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

***Auditor's Responsibility***

Our responsibility is to opine on the School District's compliance for the School District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the School District's major federal program. However, our audit does not provide a legal determination of the School District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the School District complied, in all material aspects, with the compliance requirements referred to above that could directly and materially affect its major federal program identified in the *Summary of Auditor's Results* in the accompanying schedule of findings for the year ended June 30, 2016.

### **Report on Internal Control over Compliance**

Management of Wellston City School District is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School District's internal control over compliance with the applicable requirements that could have a direct and material effect on the major federal program, to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or to detect and correct, noncompliance with an applicable compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program's compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with an applicable compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be a material weakness or significant deficiency. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*J. L. Uhrig and Associates, Inc.*

J. L. UHRIG AND ASSOCIATES, INC.  
Chillicothe, Ohio

December 13, 2016

**WELLSTON CITY SCHOOL DISTRICT**  
*Schedule of Findings*  
*For the Fiscal Year Ended June 30, 2016*

**A. SUMMARY OF AUDITOR'S RESULTS**

1.	<i>Type of Financial Statement Opinion</i>	Unmodified
2.	<i>Were there any material internal control weaknesses reported at the financial statement level (GAGAS)?</i>	No
3.	<i>Were there any other significant internal control deficiency reported at the financial statement level (GAGAS)?</i>	No
4.	<i>Was there any material noncompliance reported at the financial statement level (GAGAS)?</i>	No
5.	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
6.	<i>Were there any other significant internal control deficiency reported for major federal programs?</i>	No
7.	<i>Type of Major Programs' Compliance Opinion</i>	Unmodified
8.	<i>Are there any reportable findings under 2 CFR §200.516(a)?</i>	No
9.	<i>Major Programs (list):</i>	CFDA # 10.550/10.553/10.555/10.579 Nutrition Cluster
10.	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$750,000 Type B: All Other Programs
11.	<i>Low Risk Auditee under 2 CFR §200.520?</i>	Yes

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

There were no findings related to the financial statements required to be reported in accordance with GAGAS.

**C. FINDINGS FOR FEDERAL AWARDS**

There were no findings related to Federal Awards to be reported.



# Dave Yost • Auditor of State

WELLSTON CITY SCHOOL DISTRICT

JACKSON 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