

Wellston City School District  
Jackson County  
Single Audit  
For the Fiscal Year Ended June 30, 2012



Millhuff-Stang, CPA, Inc.  
1428 Gallia Street, Suite 2  
Portsmouth, Ohio 45662  
Phone: 740.876.8548 ■ Fax: 888.876.8549  
Website: [www.milhuffstangcpa.com](http://www.milhuffstangcpa.com) ■ Email: [natalie@milhuffstangcpa.com](mailto:natalie@milhuffstangcpa.com)





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Wellston City School District, Jackson County, prepared by Millhuff-Stang, CPA, Inc., for the audit period July 1, 2011 through June 30, 2012. 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 8, 2013

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**Wellston City School District**  
**Jackson County**  
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For the Fiscal Year Ended June 30, 2012

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**Independent Auditor's Report**

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

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, (the School District) as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Wellston City School District, Jackson County, as of June 30, 2012, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2012 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards

generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying schedule of federal awards expenditures as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of federal awards expenditures is fairly stated in all material respects in relation to the basic financial statements as a whole.



Natalie Millhuff-Stang, CPA  
President/Owner  
Millhuff-Stang, CPA, Inc.

December 28, 2012

## Wellston City School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year June 30, 2012

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, 2012. 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 financial statements to enhance their understanding of the School District's financial performance.

### FINANCIAL HIGHLIGHTS

**Key financial highlights for fiscal year 2012 are as follows:**

- Net assets of governmental activities increased \$1,193,587.
- General revenues accounted for \$14,918,109 in revenue or 80.7 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$3,557,585 or 19.3 percent of total revenues of \$18,475,694.
- The School District had \$17,282,107 in expenses related to governmental activities; only \$3,557,585 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues (primarily taxes and intergovernmental) of \$14,918,109 were adequate to cover the remaining expenses.
- Total governmental funds had \$19,664,121 in revenues and other financing sources and \$19,895,770 in expenditures. The total governmental fund balance decreased \$231,649.

### 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 Assets 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 Assets 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 2012?" The Statement of Net Assets 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, 2012*

*Unaudited*

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These two statements report the School District's net assets and changes in those assets. This change in net assets 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 Assets 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 8. 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 major governmental funds are the General Fund and the Classroom Facilities Capital Projects 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 Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

***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 School District uses accrual accounting for its fiduciary fund.

**Wellston City School District, Ohio**

*Management's Discussion and Analysis*

*For the Fiscal Year June 30, 2012*

*Unaudited*

**THE SCHOOL DISTRICT AS A WHOLE**

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2012 compared to 2011.

**Table 1  
Net Assets**

	Governmental Activities		
	2012	2011	Change
<b>Assets</b>			
Current and Other Assets	\$15,877,728	\$17,609,789	(\$1,732,061)
Capital Assets	40,028,133	37,721,630	2,306,503
Total Assets	55,905,861	55,331,419	574,442
<b>Liabilities</b>			
Long-Term Liabilities	4,943,109	4,783,037	160,072
Other Liabilities	4,006,289	4,785,506	(779,217)
Total Liabilities	8,949,398	9,568,543	(619,145)
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	35,788,133	34,423,938	1,364,195
Restricted	5,216,267	5,502,402	(286,135)
Unrestricted	5,952,063	5,836,536	115,527
Total Net Assets	\$46,956,463	\$45,762,876	\$1,193,587

Total assets of governmental activities increased \$574,442. Current assets decreased \$1,732,061 primarily due to decreases in cash and cash equivalents in the amount of \$1,466,562, investments in the amount of \$722,308, and intergovernmental receivable in the amount of \$701,717, combined with an increase in insurance settlement receivable in the amount of \$1,440,000. All of these changes are the result of the ongoing school construction project which is a part of the Ohio School Facilities Commission increasing the School District's project budget for extensive remediation to both the middle and high schools. Capital assets increased \$2,306,503 also resulting from the remediation work being completed on the School District's facilities.

Long-term liabilities increased due to the amendment to the 2010 Qualified School Construction Bonds. The amendment to the Qualified School Construction Bonds, issued in the amount of \$500,000 is being used for energy conservation improvements at each of the School District's instructional facilities. This was offset by \$280,000 in debt service payments during the fiscal year. Other liabilities decreased \$779,217. This was primarily the result of accrued wages and benefits payable decreasing \$289,476, due to the timing of payroll payments. Contract payables decreased \$214,375 due to the completion or near completion of the District's new bus garage, the pavement reconstruction project, and the energy conservation project. Deferred revenue decreased \$229,572 as a result of the decreasing intergovernmental receivables.

The net effect of changes in assets and liabilities resulted in a \$1,193,587 increase in total net assets of the School District's governmental activities.

# Wellston City School District, Ohio

## Management's Discussion and Analysis

For the Fiscal Year June 30, 2012

Unaudited

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2012, and comparisons to fiscal year 2011.

**Table 2**  
**Changes in Net Assets**

	Governmental Activities		
	2012	2011	Change
<b>Revenues</b>			
Program Revenues:			
Charges for Services	\$701,649	\$736,749	(\$35,100)
Operating Grants, Contributions and Interest	2,849,704	4,269,252	(1,419,548)
Capital Grants, Contributions and Interest	6,232	78,441	(72,209)
	<u>3,557,585</u>	<u>5,084,442</u>	<u>(1,526,857)</u>
General Revenues:			
Property Taxes	2,122,030	2,289,522	(167,492)
Grants and Entitlements	10,810,001	13,619,293	(2,809,292)
Investment Earnings	15,025	27,113	(12,088)
Insurance Recoveries	1,857,284	6,261	1,851,023
Donations	0	8,476	(8,476)
Miscellaneous	113,769	38,234	75,535
	<u>14,918,109</u>	<u>15,988,899</u>	<u>(1,070,790)</u>
Total Revenues	<u>18,475,694</u>	<u>21,073,341</u>	<u>(2,597,647)</u>
<b>Program Expenses</b>			
Instruction:			
Regular	6,512,723	6,366,423	(146,300)
Special	2,641,627	2,602,149	(39,478)
Vocational	65,221	93,277	28,056
Student Intervention Services	16,171	27,662	11,491
Support Services:			
Pupils	738,119	768,043	29,924
Instructional Staff	1,131,680	1,271,294	139,614
Board of Education	223,489	130,504	(92,985)
Administration	1,262,305	1,340,910	78,605
Fiscal	471,264	458,021	(13,243)
Operation and Maintenance of Plant	1,662,611	1,838,407	175,796
Pupil Transportation	826,461	1,169,187	342,726
Central	208,833	240,549	31,716
Operation of Non-Instructional Services:			
Food Service Operations	786,812	783,139	(3,673)
Community Services	162,705	224,106	61,401
Extracurricular Activities	365,366	323,373	(41,993)
Interest and Fiscal Charges	206,720	99,014	(107,706)
Total Expenses	<u>17,282,107</u>	<u>17,736,058</u>	<u>453,951</u>
Increase in Net Assets	1,193,587	3,337,283	(2,143,696)
Net Assets at Beginning of Year	<u>45,762,876</u>	<u>42,425,593</u>	<u>3,337,283</u>
Net Assets at End of Year	<u>\$46,956,463</u>	<u>\$45,762,876</u>	<u>\$1,193,587</u>

### **Governmental Activities**

Property taxes made up approximately 11.5 percent of revenues for governmental activities for the Wellston City School District. Of the remaining revenues, the School District receives 74.0 percent from state foundation, federal, and state grants; 3.8 percent from charges for services; 10.0 percent from insurance recoveries; and 0.7 percent from interest and local entities.

## Wellston City School District, Ohio

### Management's Discussion and Analysis

For the Fiscal Year June 30, 2012

Unaudited

Total revenues decreased \$2,597,647 from fiscal year 2011 to fiscal year 2012. This decrease was due to decreases in operating grants, contributions, and interest in the amount of \$1,419,548, the result of the discontinuance of the American Recovery and Reinvestment Act funding. In addition, unrestricted grants and entitlements decreased \$2,809,292 due to the near completion of the Ohio School Facilities Commission's remediation program.

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 decreases as the property value increases thus generating about the same revenue. Property taxes made up just 11.5 percent of revenues for governmental activities for Wellston City School District in 2012. Additionally, increases in property taxes would only have a nominal effect upon the School District's total revenue. This is due to the funding formula in place in Ohio, any increase in property tax revenue would be offset by a corresponding decrease in state funding the School District would receive.

Over 53.4 percent of the School District's budget is used to fund instructional expenses. Support services make up 37.8 percent of expenses and 8.8 percent is used for fiscal charges, extracurricular activities, and non-instructional services.

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. In other words, it identifies the cost of those services supported by tax revenue and unrestricted State entitlements.

**Table 3  
Governmental Activities**

	2012 Total Cost of Services	2012 Net Cost of Services	2011 Total Cost of Services	2011 Net Cost of Services
<b>Program Expenses</b>				
Instruction:				
Regular	\$6,512,723	\$5,840,388	\$6,366,422	\$4,935,009
Special	2,641,627	1,599,924	2,602,149	1,577,823
Vocational	65,221	39,721	93,277	67,776
Student Intervention Services	16,171	11,897	27,662	7,643
Support Services:				
Pupils	738,119	573,073	768,043	633,899
Instructional Staff	1,131,680	693,571	1,271,294	100,411
Board of Education	223,489	208,632	130,504	113,345
Administration	1,262,305	1,233,142	1,340,910	1,293,682
Fiscal	471,264	415,985	458,021	409,012
Operation and Maintenance of Plant	1,662,611	1,586,391	1,838,407	1,735,358
Pupil Transportation	826,461	802,871	1,169,187	1,068,680
Central	208,833	208,833	240,549	234,100
Operation of Non-Instructional Services:				
Food Service Operations	786,812	(8,941)	783,139	22,266
Community Services	162,705	66,875	224,107	163,745
Extracurricular Activities	365,366	245,440	323,373	189,853
Interest and Fiscal Charges	206,720	206,720	99,014	99,014
<b>Totals</b>	<b>\$17,282,107</b>	<b>\$13,724,522</b>	<b>\$17,736,058</b>	<b>\$12,651,616</b>

## Wellston City School District, Ohio

### *Management's Discussion and Analysis*

*For the Fiscal Year June 30, 2012*

*Unaudited*

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The dependence upon tax revenues and State subsidies for governmental activities is apparent. For fiscal year 2012, approximately 79.4 percent of instructional activities were supported through taxes and other general revenues.

#### **THE SCHOOL DISTRICT FUNDS**

The School District's governmental funds reported a combined fund balance of \$11,081,358, a decrease of \$231,649 from fiscal year 2011. All governmental funds had total revenues of \$17,111,008 and expenditures of \$19,895,770.

The School District's funds are accounted for using the modified accrual basis of accounting. The General Fund's \$56,779 increase in fund balance is due to revenues outpacing expenditures. The Classroom Facilities Capital Projects Fund's \$58,876 increase in fund balance is due to unexpected insurance recoveries received due to the remediation projects at the School District's instructional facilities.

#### ***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 2012, the School District did amend its General Fund estimated revenues 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 budget basis revenue estimate was \$13,476,471, which represented an increase of \$636,671, or 5.0 percent from original estimates of \$12,839,800. This difference was due to incorrect assumptions regarding the School District's intergovernmental revenues. The final budget basis expenditure estimate of \$15,160,421 represented a \$96,701, or 0.6 percent increase from the original estimates of \$15,063,720.

The School District's ending unobligated general fund balance was \$6,770,229.

# Wellston City School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year June 30, 2012

Unaudited

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal year 2012, the School District had \$40,028,133 invested in land, construction in progress, land improvements, buildings and improvements, furniture, fixtures and equipment, vehicles, and textbooks. Table 4 shows fiscal year 2012 balances compared to 2011

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

	Governmental Activities	
	2012	2011
Land	\$189,885	\$189,885
Construction in Progress	4,420,211	1,869,827
Land Improvements	309,087	96,798
Buildings and Improvements	33,086,574	33,483,380
Furniture, Fixtures, and Equipment	1,127,717	1,237,810
Vehicles	431,314	340,785
Textbooks	463,345	503,145
Totals	<u>\$40,028,133</u>	<u>\$37,721,630</u>

For additional information on capital assets, see Note 15 to the basic financial statements.

### Debt

At June 30, 2012, the School District had outstanding a Classroom Facilities Assistance Bond for \$935,000, a Classroom Facilities Refunding Bond in the amount of \$1,307,285, and a Qualified School Construction Bonds in the amount of \$2,080,000.

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

	Governmental Activities	
	2012	2011
1999 Classroom Facilities Assistance Bonds:		
Serial	\$935,000	\$1,085,000
2010 Classroom Facilities Refunding Bonds:		
Serial	1,155,000	1,175,000
Capital Appreciation	70,000	70,000
Accretion on Capital Appreciation	18,815	3,790
Bond Amortization of Premium	95,220	104,742
Deferred Amount on Refunding	(31,750)	(34,925)
2010 Qualified School Construction Bond	<u>2,080,000</u>	<u>1,690,000</u>
Totals	<u>\$4,322,285</u>	<u>\$4,093,607</u>

For additional information on debt, see Note 19 to the basic financial statements.

## **Wellston City School District, Ohio**

*Management's Discussion and Analysis*

*For the Fiscal Year June 30, 2012*

*Unaudited*

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### **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 74 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.

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

This financial report is designed to provide our citizens, taxpayers, 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 Assets*  
*June 30, 2012*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$10,730,233
Cash and Cash Equivalents in Segregated Accounts	31,216
Materials and Supplies Inventory	12,080
Accrued Interest Receivable	222
Intergovernmental Receivable	444,683
Insurance Settlement Receivable	1,440,000
Property Taxes Receivable	3,145,113
Accounts Receivable	10,711
Deferred Charges	63,470
Nondepreciable Capital Assets	4,610,096
Depreciable Capital Assets, Net	35,418,037
<i>Total Assets</i>	55,905,861
<b>Liabilities</b>	
Accounts Payable	67,457
Accrued Wages and Benefits Payable	961,416
Contracts Payable	63,125
Retainage Payable	24,854
Intergovernmental Payable	425,529
Deferred Revenue	2,368,380
Accrued Interest Payable	23,910
Vacation Benefits Payable	71,618
Long-Term Liabilities:	
Due within One Year	402,070
Due in More than One Year	4,541,039
	4,943,109
<i>Total Liabilities</i>	8,949,398
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	35,788,133
Restricted for:	
Budget Stabilization	56,688
Nonexpendable Trust	10,000
Debt Service	1,083,363
Capital Projects	3,263,304
Other Purposes	802,912
Unrestricted	5,952,063
<i>Total Net Assets</i>	\$46,956,463

See accompanying notes to the basic financial statements

**Wellston City School District, Ohio**  
*Statement of Activities*  
For the Fiscal Year Ended June, 30, 2012

	Program Revenues			Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants, Contributions and Interest		
<b>Governmental Activities</b>					
Instruction:					
Regular	\$6,512,723	\$377,396	\$294,939	\$0	(\$5,840,388)
Special	2,641,627	0	1,041,703	0	(1,599,924)
Vocational	65,221	0	25,500	0	(39,721)
Student Intervention Services	16,171	0	4,274	0	(11,897)
Support Services:					
Pupils	738,119	0	165,046	0	(573,073)
Instructional Staff	1,131,680	0	438,109	0	(693,571)
Board of Education	223,489	0	14,857	0	(208,632)
Administration	1,262,305	0	29,163	0	(1,233,142)
Fiscal	471,264	0	55,279	0	(415,985)
Operation and Maintenance of Plant	1,662,611	3,100	66,888	6,232	(1,586,391)
Pupil Transportation	826,461	0	23,590	0	(802,871)
Central	208,833	0	0	0	(208,833)
Operation of Non-Instructional Services:					
Food Service Operations	786,812	217,515	578,238	0	8,941
Community Services	162,705	0	95,830	0	(66,875)
Extracurricular Activities	365,366	103,638	16,288	0	(245,440)
Interest and Fiscal Charges	206,720	0	0	0	(206,720)
<b>Totals</b>	<b>\$17,282,107</b>	<b>\$701,649</b>	<b>\$2,849,704</b>	<b>\$6,232</b>	<b>(13,724,522)</b>
<b>General Revenues</b>					
Property Taxes Levied for:					
General Purposes					1,899,032
Debt Service					186,864
Classroom Facilities Maintenance					36,134
Grants and Entitlements not Restricted to Specific Programs					10,810,001
Investment Earnings					15,025
Insurance Recoveries					1,857,284
Miscellaneous					113,769
<b>Total General Revenues</b>					<b>14,918,109</b>
<b>Change in Net Assets</b>					<b>1,193,587</b>
<b>Net Assets at Beginning of Year</b>					<b>45,762,876</b>
<b>Net Assets at End of Year</b>					<b>\$46,956,463</b>

See accompanying notes to the basic financial statements

**Wellston City School District, Ohio**

*Balance Sheet  
Governmental Funds  
June 30, 2012*

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$6,912,860	\$1,755,382	\$2,005,303	\$10,673,545
Cash and Cash Equivalents in Segregated Accounts	0	31,216	0	31,216
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	56,688	0	0	56,688
Receivables:				
Property Taxes	2,803,503	0	341,610	3,145,113
Intergovernmental	6,087	0	438,596	444,683
Insurance Settlement	0	1,440,000	0	1,440,000
Interfund	149,670	0	0	149,670
Accrued Interest	222	0	0	222
Accounts	10,586	0	125	10,711
Materials and Supplies Inventory	0	0	12,080	12,080
<b>Total Assets</b>	<b>\$9,939,616</b>	<b>\$3,226,598</b>	<b>\$2,797,714</b>	<b>\$15,963,928</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$59,611	\$0	\$7,846	\$67,457
Accrued Wages and Benefits Payable	734,354	0	227,062	961,416
Contracts Payable	0	26,625	36,500	63,125
Retainage Payable	0	24,854	0	24,854
Interfund Payable	0	0	149,670	149,670
Intergovernmental Payable	341,667	0	83,862	425,529
Deferred Revenue	2,711,334	0	479,185	3,190,519
<b>Total Liabilities</b>	<b>3,846,966</b>	<b>51,479</b>	<b>984,125</b>	<b>4,882,570</b>
<b>Fund Balances</b>				
Nonspendable	0	0	22,080	22,080
Restricted	63,469	3,175,119	1,669,950	4,908,538
Committed	175,319	0	169,019	344,338
Assigned	60,930	0	0	60,930
Unassigned (Deficit)	5,792,932	0	(47,460)	5,745,472
<b>Total Fund Balances</b>	<b>6,092,650</b>	<b>3,175,119</b>	<b>1,813,589</b>	<b>11,081,358</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$9,939,616</b>	<b>\$3,226,598</b>	<b>\$2,797,714</b>	<b>\$15,963,928</b>

See accompanying notes to the basic financial statements

**Wellston City School District, Ohio**  
*Reconciliation of Total Governmental Fund Balances  
to Net Assets of Governmental Activities  
June 30, 2012*

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<b>Total Governmental Fund Balances</b>	\$11,081,358
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***Amounts reported for governmental activities in the  
statement of net assets are different because***

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	40,028,133
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Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds:

Property Taxes	673,324	
Grants	<u>148,815</u>	822,139

Unamortized issuance costs represent deferred charges which do not provide current financial resources and, therefore, are not reported in the funds.	63,470
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Accrued interest payable is recognized for outstanding long-term liabilities with interest accruals that are not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(23,910)
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

Classroom Facilities Bonds	(935,000)	
Classroom Facilities Refunding Bonds	(1,307,285)	
Qualified School Construction Bonds	(2,080,000)	
Sick Leave Benefits Payable	(620,824)	
Vacation Benefits Payable	<u>(71,618)</u>	<u>(5,014,727)</u>

Net Assets of Governmental Activities	<u><u>\$46,956,463</u></u>
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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, 2012*

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property Taxes	\$1,912,357	\$0	\$224,623	\$2,136,980
Intergovernmental	10,971,168	0	3,095,384	14,066,552
Investment Earnings	15,025	801	699	16,525
Tuition and Fees	377,396	0	0	377,396
Charges for Services	0	0	217,515	217,515
Extracurricular	17,903	0	85,735	103,638
Rent	3,100	0	0	3,100
Donations	7,003	0	68,530	75,533
Miscellaneous	82,514	0	31,255	113,769
<i>Total Revenues</i>	<u>13,386,466</u>	<u>801</u>	<u>3,723,741</u>	<u>17,111,008</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	6,017,248	0	657,510	6,674,758
Special	1,604,287	0	923,502	2,527,789
Vocational	64,357	0	0	64,357
Student Intervention Services	12,747	0	3,424	16,171
Support Services:				
Pupils	510,781	0	165,821	676,602
Instructional Staff	463,208	0	524,955	988,163
Board of Education	214,489	0	9,000	223,489
Administration	1,139,477	0	43,800	1,183,277
Fiscal	445,294	0	9,898	455,192
Operation and Maintenance of Plant	1,216,819	0	411,751	1,628,570
Pupil Transportation	1,028,140	0	44,699	1,072,839
Central	238,038	0	6,264	244,302
Operation of Non-Instructional Services:				
Food Service Operations	0	0	788,086	788,086
Community Services	4,906	0	51,940	56,846
Extracurricular Activities	182,264	0	103,723	285,987
Capital Outlay	2,646	1,976,870	564,869	2,544,385
Debt Service:				
Principal Retirement	110,000	0	170,000	280,000
Interest and Fiscal Charges	93,154	0	91,803	184,957
<i>Total Expenditures</i>	<u>13,347,855</u>	<u>1,976,870</u>	<u>4,571,045</u>	<u>19,895,770</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>38,611</u>	<u>(1,976,069)</u>	<u>(847,304)</u>	<u>(2,784,762)</u>
<b>Other Financing Sources</b>				
Insurance Recoveries	18,168	2,034,945	0	2,053,113
General Obligation Bonds Issued	0	0	500,000	500,000
<i>Total Other Financing Sources</i>	<u>18,168</u>	<u>2,034,945</u>	<u>500,000</u>	<u>2,553,113</u>
<i>Net Change in Fund Balance</i>	56,779	58,876	(347,304)	(231,649)
<i>Fund Balances at Beginning of Year</i>	<u>6,035,871</u>	<u>3,116,243</u>	<u>2,160,893</u>	<u>11,313,007</u>
<i>Fund Balances at End of Year</i>	<u>\$6,092,650</u>	<u>\$3,175,119</u>	<u>\$1,813,589</u>	<u>\$11,081,358</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, 2012*

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**Net Change in Fund Balances - Total Governmental Funds** (\$231,649)

***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 useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period:

Capital Asset Additions	3,548,612	
Depreciation Expense	<u>(1,233,770)</u>	2,314,842

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on disposal of assets:

(8,339)

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

Grants	(477,648)	
Insurance Recoveries	(195,829)	
Delinquent Taxes	<u>(14,950)</u>	(688,427)

Repayment of principal and the refunding of debt is an expenditure in the governmental funds, but the repayments reduce long-term liabilities in the statement of net assets:

280,000

Bond proceeds are other financing sources in the governmental funds, but the issuance increases the long-term liabilities on the statement of activities:

Qualified School Construction Bonds		(500,000)
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Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities. Premiums and discounts are reported as revenues and expenditures when the debt is first issued; however, these amounts are deferred and amortized on the statements of activities:

Accrued Interest Payable	(6,738)	
Amortization of Premium	9,522	
Amortization of Deferred Amount on Refunding	(3,175)	
Annual Accretion	(15,025)	
Amortization of Issuance Costs	<u>(6,347)</u>	(21,763)

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:

Sick Leave Benefits Payable	68,606	
Vacation Benefits Payable	<u>(19,683)</u>	<u>48,923</u>

***Change in Net Assets of Governmental Activities*** \$1,193,587

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, 2012*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$1,857,419	\$1,948,395	\$1,942,994	(\$5,401)
Intergovernmental	10,509,113	11,013,955	10,993,290	(20,665)
Investment Earnings	14,410	27,459	15,074	(12,385)
Tuition and Fees	360,784	381,733	377,406	(4,327)
Extracurricular	17,098	17,973	17,886	(87)
Rent	2,963	3,100	3,100	0
Donations	6,695	8,070	7,003	(1,067)
Miscellaneous	71,318	75,786	74,604	(1,182)
<b>Total Revenues</b>	<b>12,839,800</b>	<b>13,476,471</b>	<b>13,431,357</b>	<b>(45,114)</b>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	6,635,897	6,360,851	6,082,161	278,690
Special	1,776,648	1,757,840	1,628,395	129,445
Vocational	76,075	86,978	69,727	17,251
Student Intervention Services	8,460	8,760	7,754	1,006
Support Services:				
Pupils	578,546	579,479	530,269	49,210
Instructional Staff	545,153	549,745	499,662	50,083
Board of Education	247,174	253,720	226,548	27,172
Administration	1,264,773	1,272,161	1,159,233	112,928
Fiscal	491,564	473,323	450,545	22,778
Operation and Maintenance of Plant	1,545,907	1,654,622	1,416,908	237,714
Pupil Transportation	1,163,445	1,160,302	1,066,361	93,941
Central	294,466	519,899	269,894	250,005
Operation of Non-Instructional Activities:				
Food Service Operations	27	27	0	27
Community Services	5,353	6,720	4,906	1,814
Extracurricular Activities	205,695	233,685	188,531	45,154
Capital Outlay	2,887	18,418	2,646	15,772
Debt Service:				
Principal	120,015	121,228	110,000	11,228
Interest and Fiscal Charges	101,635	102,663	93,154	9,509
<b>Total Expenditures</b>	<b>15,063,720</b>	<b>15,160,421</b>	<b>13,806,694</b>	<b>1,353,727</b>
<b>Excess of Revenues Under Expenditures</b>	<b>(2,223,920)</b>	<b>(1,683,950)</b>	<b>(375,337)</b>	<b>1,308,613</b>
<b>Other Financing Sources (Uses)</b>				
Insurance Recoveries	65,505	68,523	68,523	0
Advances In	20,686	21,790	21,639	(151)
Advances Out	(41,695)	(70,000)	(38,216)	31,784
<b>Total Other Financing Sources (Uses)</b>	<b>44,496</b>	<b>20,313</b>	<b>51,946</b>	<b>31,633</b>
<b>Net Change in Fund Balance</b>	<b>(2,179,424)</b>	<b>(1,663,637)</b>	<b>(323,391)</b>	<b>1,340,246</b>
<b>Fund Balance at Beginning of Year</b>	<b>6,951,196</b>	<b>6,951,196</b>	<b>6,951,196</b>	<b>0</b>
Prior Year Encumbrances Appropriated	142,424	142,424	142,424	0
<b>Fund Balance at End of Year</b>	<b>\$4,914,196</b>	<b>\$5,429,983</b>	<b>\$6,770,229</b>	<b>\$1,340,246</b>

See accompanying notes to the basic financial statements

**Wellston City School District, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Fund*  
*June 30, 2012*

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**Assets**

Equity in Pooled Cash and Cash Equivalents	<u><u>\$56,653</u></u>
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**Liabilities**

Due to Students	<u><u>\$56,653</u></u>
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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, 2012

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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 69 classified employees, 107 certified teaching personnel, and 8 administrators, who provide services to 1,617 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 that 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. The School District has no component units.

The School District participates in the Southeastern Ohio Voluntary Education Cooperative, 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 Schools of Ohio Risk Sharing Authority (SORSA) and Ohio School Boards Association Workers' Compensation Group Rating Plan which are defined as insurance purchasing pools. These organizations are presented in Notes 9 and 10.

### 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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The 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, 2012

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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 assets 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 assets 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 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 assets 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. 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 two categories of funds: governmental and fiduciary.

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

**General Fund** The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

**Classroom Facilities Capital Projects Fund** The Classroom Facilities Capital Projects Fund accounts for grant and debt proceeds used for the renovation and reconstruction of the School District's school facilities.

## Wellston City School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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

***Fiduciary Funds*** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the 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. Agency funds are custodial in nature (assets equals liabilities) and does not involve the measurement of results of operations. The School District's only fiduciary fund is an agency fund, which accounts for student 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 assets. The statement of activities accounts for increases (revenues) and decreases (expenses) in total net assets.

***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.

### ***D. Basis of Accounting***

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. 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 revenue, and in the presentation of expenses versus expenditures.

***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.

## Wellston City School District, Ohio

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2012*

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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 7). 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, insurance settlements, interest, tuition, grants, student fees, and rentals.

**Deferred Revenue** Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue.

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

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

### **E. 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".

The School District has segregated bank accounts for monies retained by the School District which are being used during construction to ensure satisfactory completion of the school facilities project. These accounts are presented on the balance sheet as "cash and cash equivalents in segregated accounts" since they are kept separate from the School District treasury.

During fiscal year 2012, investments were limited to non-negotiable certificates of deposit, which are reported at cost, money market mutual funds, which are reported at current share value, and to the State Treasury Asset Reserve of Ohio (STAR Ohio).

## Wellston City School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for at June 30, 2012.

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 Permanent Fund. Interest revenue credited to the General Fund during fiscal year 2012 amounted to \$15,025, which includes \$5,651 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. Restricted Assets***

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets include unexpended revenues required by State statute to be set-aside by the School District for the creation of a reserve for budget stabilization. See Note 20 for additional information regarding set-asides.

### ***G. 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.

### ***H. Capital Assets***

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 assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the 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 fair market 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 and construction in progress, are depreciated. Improvements are depreciated over the remaining useful life of the related capital asset.

**Wellston City School District, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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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
Textbooks	20 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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. The School District had no transfers during fiscal year 2012.

***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.

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

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments 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.

## Wellston City School District, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012

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### **L. Bond Premiums, Gain/Losses on Refinancing and Issuance Costs**

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

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

### **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 legally or contractually required to be maintained intact. The “not in spendable form” criterion 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.

**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.

## Wellston City School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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### **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 assets.

### **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 Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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 assets are reported as restricted when there are limitations imposed on their 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 assets restricted for other purposes include resources restricted for food service operations and federal and state grants restricted for specific purposes.

Of the School District's restricted net assets, none is restricted by enabling legislation.

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

### **Q. 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.

**Wellston City School District, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

**Note 3 - Fund Deficits**

The following funds had deficit fund balances as of June 30, 2012:

	<u>Deficit</u>
<b>Other Governmental Funds:</b>	
Public Preschool	\$1,113
Education Jobs	12,751
Title VI-B Idea	31,731
Title II-A	1,634

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 4 - 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 Statement 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:

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).

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	\$56,779
Revenue Accruals	95,246
Expenditure Accruals	(259,520)
Advances	(16,577)
Encumbrances	(199,319)
Budget Basis	<u><u>(\$323,391)</u></u>

**Wellston City School District, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

**Note 5 - 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	Classroom Facilities Fund	Other Governmental Funds	Total
Nonspendable:				
Scholarships	\$0	\$0	\$10,000	\$10,000
Materials and Supplies Inventory	0	0	12,080	12,080
<i>Total Nonspendable</i>	<u>0</u>	<u>0</u>	<u>22,080</u>	<u>22,080</u>
Restricted for:				
Local Grant Expenditures	6,781	0	34,594	41,375
State Grant Expenditures	0	0	87,607	87,607
Federal Grant Expenditures	0	0	24,600	24,600
Athletics	0	0	29,454	29,454
Debt Service Payments	0	0	1,048,723	1,048,723
Capital Improvements	0	3,175,119	444,870	3,619,989
Budget Stabilization	56,688	0	0	56,688
Scholarships	0	0	102	102
<i>Total Restricted</i>	<u>63,469</u>	<u>3,175,119</u>	<u>1,669,950</u>	<u>4,908,538</u>
Committed to:				
Capital Improvements	168,900	0	0	168,900
Scholarships	0	0	169,019	169,019
After School Programs	6,419	0	0	6,419
<i>Total Committed</i>	<u>175,319</u>	<u>0</u>	<u>169,019</u>	<u>344,338</u>
Assigned to:				
Classroom Supplies	60,930	0	0	60,930
<i>Total Assigned</i>	<u>60,930</u>	<u>0</u>	<u>0</u>	<u>60,930</u>
Unassigned (Deficits):	5,792,932	0	(47,460)	5,745,472
<i>Total Fund Balances</i>	<u>\$6,092,650</u>	<u>\$3,175,119</u>	<u>\$1,813,589</u>	<u>\$11,081,358</u>

**Note 6 - 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.

## Wellston City School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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

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

Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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, all of the School District's bank balance of \$2,002,443 was either covered by the Federal Deposit Insurance Corporation or collateralized with pooled securities held by the pledging financial institution in the manner described below.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with 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 105 percent of the deposits being secured.

**Wellston City School District, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

**Investments** As of June 30, 2012, the School District had the following investments: STAROhio which is part of the internal investment pool, and a money market mutual fund that is held by an escrow agent for the current energy conservation project.

	Fair Value	Maturity	Percent of Total Investments	Rating	Rating Agency
Money Market Mutual Funds	\$31,216	1 day	0.37%	AAAm	S&P
STAROhio	8,391,070	52.5 days	99.63%	AAAm	S&P
<b>Total</b>	<b>\$8,422,286</b>		<b>100.00%</b>		

**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** The credit ratings for the School District's securities are listed above. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market mutual fund be rated in the highest category at the time of purchase 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 in the table above.

**Note 7 - Property Taxes**

Property taxes are levied and assessed on a calendar year basis while the School District 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 2012 represents collections of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed value listed as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2012 represents collections of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien December 31, 2010, were levied after April 1, 2011, and are collected 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

**Wellston City School District, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real and public utility taxes which are measurable as of June 30, 2012, 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 were levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2012, was \$92,169 in the General Fund, \$8,992 in the Bond Retirement Debt Service Fund, and \$2,248 in the Classroom Facilities Maintenance Special Revenue Fund. The amount available as an advance at June 30, 2011, was \$122,806 in the General Fund, \$11,981 in the Bond Retirement Debt Service Fund, and \$2,995 in the Classroom Facilities Maintenance Special Revenue Fund.

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

The assessed values upon which the fiscal year 2012 taxes were collected are:

	2011 Second Half Collections		2012 First Half Collections	
Agricultural/Residential	\$81,149,270	73.55%	\$80,352,300	77.36%
Commercial/Industrial and Public Utility Real	19,839,340	17.98%	15,989,620	15.39%
Public Utility Personal	9,348,300	8.47%	7,532,210	7.25%
Total	\$110,336,910	100.00%	\$103,874,130	100.00%
 Tax Rate per \$1,000 of Assessed Valuation	 \$25.00		 \$25.00	

**Note 8 - Receivables**

Receivables at June 30, 2012, consisted of property taxes, insurance settlements, interfund loans, accrued interest, accounts, 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**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
<b>General Fund</b>	\$6,087
<b>Other Governmental Funds</b>	
Auxiliary	19,318
Public Preschool	11,258
Educations Jobs	75,611
Race to the Top	54,808
Title VI-B	87,448
Parent Mentor	7,506
Title II-D	6,010
School Improvement	7,044
Title I	151,492
Handicapped Preschool	1,488
Title II-A	15,624
Title VI-B Rural	989
Total	<u><u>\$444,683</u></u>

**Note 9 - Jointly Governed Organizations**

**A. 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 2012, the School District paid \$51,371 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.

**B. Southeastern Ohio Voluntary Education Cooperative**

SEOVEC was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. SEOVEC has 26 participants consisting of school districts in eight southeastern Ohio counties. SEOVEC is governed by a governing board which is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. During fiscal year 2012, the School District paid \$35,755 to SEOVEC. To obtain financial information write to the Southeastern Ohio Voluntary Education Cooperative, at 221 North Columbus Road, Athens, Ohio 45701.

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

The Coalition of Rural and Appalachian Schools is a jointly governed organization composed of 136 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 Council provides various in-service training programs for school district administrative personnel; gathers data regarding the level of education provided to children in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of

## **Wellston City School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2012*

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member districts; and provides staff development programs for school district personnel. The Council 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 Council. During fiscal year 2012, the School District made no payments to the Coalition. The financial information for the Coalition can be obtained from the Executive Director, at McCracken Hall, Ohio University, Athens, Ohio 45701.

### **Note 10 - Insurance Purchasing Pool**

#### ***A. 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.

#### ***B. Schools of Ohio Risk Sharing Authority, Inc.***

The School District participates in the Schools of Ohio Risk Sharing Authority, Inc. (SORSA), an insurance purchasing pool. SORSA was formed as an Ohio non-profit corporation for the purpose of administering a joint self-insurance pool and assisting members to prevent and reduce losses and injuries to School District property and persons which might result in claims being made against members of SORSA. Member school districts agree to jointly participate in coverage of losses and pay all contributions necessary for the specified insurance coverages provided by SORSA. These coverages include, comprehensive general liability, automobile liability, certain property insurance and educator's errors and omissions liability insurance.

Each member school district has one vote on all matters requiring a vote, to be cast by a designated representative. The affairs of the Corporation are managed by an elected board of not more than nine directors. Only superintendents, treasurers, or business managers of member school districts are eligible to serve on the board. No school district may have more than one member on the board at any one time. Each member school district's control is limited to its voting authority and any representative it may have on the board of directors. Financial information can be obtained from SORSA at 8050 North High Street, Suite 160, Columbus, Ohio 43235.

### **Note 11 - Interfund Balances**

Interfund balances at June 30, 2012, 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.

## Wellston City School District, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012

	Interfund Receivables	Interfund Payables
<b>General Fund</b>	<u>\$149,670</u>	<u>\$0</u>
<b>Other Governmental Funds:</b>		
Bond Retirement	0	6,395
Food Service	0	53,500
Athletics	0	15,120
Public Preschool	0	1,762
Education Jobs	0	3,034
Race to the Top	0	3,498
Title VI-B	0	55,299
Stabilization	0	6,000
School Improvement	0	1,730
Title I	0	2,739
Miscellaneous Federal Grants	<u>0</u>	<u>593</u>
Total Other Governmental Funds	<u>0</u>	<u>149,670</u>
Total All Funds	<u>\$149,670</u>	<u>\$149,670</u>

### Note 12 - Contingencies

#### A. Grants

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

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. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

#### B. Litigation

The School District is a party to legal proceedings. The School District is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

### Note 13 - Contractual Commitments

As of June 30, 2012, the School District's contractual purchase commitments for the Middle School and High School Pavement Reconstruction, Energy Conservation Improvement Project, litigation consultation, and a new gymnasium floor are as follows:

## Wellston City School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

Project	Vendor	Contract Amount	Amount Expended	Balance at 06/30/12
Pavement Reconstruction	Shelly & Sands	\$1,787,261	\$1,762,407	\$24,854
	Kleingers & Associates	170,000	139,291	30,709
	Terracon	44,845	14,577	30,268
	Key Blue Prints	2,500	1,196	1,304
	Miscellaneous	381	381	0
Total Pavement Reconstruction Project		<u>2,004,987</u>	<u>1,917,852</u>	<u>87,135</u>
Energy Conservation	Heat, TFS	1,943,900	1,943,900	0
	Jackson Comfort System	212,671	174,714	37,957
	Dimarco & Associates	180,600	164,854	15,746
Total Energy Conservation Project		<u>2,337,171</u>	<u>2,283,468</u>	<u>53,703</u>
Gymnasium Floor	Moore & Neville	20,213	20,213	0
	Final Floor	34,626	34,626	0
	Ohio Concrete	30,000	30,000	0
	Marion Spires	18,816	18,816	0
	Kleingers & Associates	11,000	9,321	1,679
	Miscellaneous	5,790	4,290	1,500
Total Gymnasium Floor Project		<u>120,445</u>	<u>117,266</u>	<u>3,179</u>
Litigation Consultation	Ryan-Biggs & Associates	<u>179,000</u>	<u>101,625</u>	<u>77,375</u>
Total Contractual Commitments		<u><u>\$4,641,603</u></u>	<u><u>\$4,420,211</u></u>	<u><u>\$221,392</u></u>

### Note 14 - 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. For fiscal year 2012, the School District participated with other school districts in Ohio in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool (Note 10). Each individual school district enters into an agreement with the SORSA and its premium is based on types of coverage, limits of coverage, and deductibles it selects. The School District pays its annual premiums to SORSA. The types and amounts of coverage provided are as follows:

## Wellston City School District, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012

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Property	Deductible	Limits of Coverage
Building and Contents - Replacement Cost	\$250	\$53,080,303
General Liability:		
Each Occurrence	0	12,000,000
Aggregate Limit	0	14,000,000
Products - Completed Operations Aggregate Limit	0	12,000,000
Personal and Advertising Injury Limit - Each Offense	0	12,000,000
Employers' Liability:		
Each Occurrence	0	12,000,000
Disease - Each Employee	0	12,000,000
Disease - Policy Limit	0	12,000,000
Employee Benefits Liability:		
Each Occurrence	0	12,000,000
Aggregate Limit	0	12,000,000
Hazardous Substances	250	250,000
Vehicles:		
Bodily Injury:		
Per Person	0	12,000,000
Per Accident	0	12,000,000
Property Damage	0	12,000,000
Uninsured Motorist:		
Per Person	0	100,000
Per Accident	0	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from fiscal year 2011.

### **B. Workers' Compensation**

For fiscal year 2012, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 10). 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.

## Wellston City School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

### Note 15 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance at 6/30/11	Additions	Deductions	Balance at 6/30/12
<b>Capital Assets:</b>				
<b>Capital Assets not being Depreciated:</b>				
Land	\$189,885	\$0	\$0	\$189,885
Construction in Progress	1,869,827	2,795,424	(245,040)	4,420,211
<b>Total Non-Depreciable Capital Assets</b>	<b>2,059,712</b>	<b>2,795,424</b>	<b>(245,040)</b>	<b>4,610,096</b>
<b>Depreciable Capital Assets:</b>				
Land Improvements	211,050	260,768	0	471,818
Buildings and Improvements	39,780,281	353,956	0	40,134,237
Furniture, Fixtures, and Equipment	3,405,594	119,390	(117,996)	3,406,988
Vehicles	1,381,665	177,872	0	1,559,537
Textbooks	1,197,824	86,242	0	1,284,066
<b>Total Depreciable Capital Assets</b>	<b>45,976,414</b>	<b>998,228</b>	<b>(117,996)</b>	<b>46,856,646</b>
<b>Less Accumulated Depreciation:</b>				
Land Improvements	(114,252)	(48,479)	0	(162,731)
Buildings and Improvements	(6,296,901)	(750,762)	0	(7,047,663)
Furniture, Fixtures, and Equipment	(2,167,784)	(221,144)	109,657	(2,279,271)
Vehicles	(1,040,880)	(87,343)	0	(1,128,223)
Textbooks	(694,679)	(126,042)	0	(820,721)
<b>Total Accumulated Depreciation</b>	<b>(10,314,496)</b>	<b>(1,233,770) *</b>	<b>109,657</b>	<b>(11,438,609)</b>
<b>Total Capital Assets being Depreciated, Net</b>	<b>35,661,918</b>	<b>(235,542)</b>	<b>(8,339)</b>	<b>35,418,037</b>
<b>Capital Assets, Net</b>	<b>\$37,721,630</b>	<b>\$2,559,882</b>	<b>(\$253,379)</b>	<b>\$40,028,133</b>

\*Depreciation expense was charged to governmental functions as follows:

<b>Instruction:</b>	
Regular	\$343,871
Special	163,567
Vocational	4,209
<b>Support Services:</b>	
Pupils	58,732
Instructional Staff	129,030
Administration	92,453
Fiscal	12,774
Operation and Maintenance of Plant	61,241
Pupil Transportation	174,533
Central	8,420
Food Service Operations	105,859
Extracurricular Activities	79,081
<b>Total Depreciation Expense</b>	<b>\$1,233,770</b>

## Wellston City School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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### **Note 16 - Defined Benefit Pension Plans**

#### ***A. School Employees Retirement System***

Plan Description – The School District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2012, 12.70 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011, and 2010, were \$220,744, \$175,688, and \$307,527, respectively; 45.97 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

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

Plan Description – The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio 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. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

## Wellston City School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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Funding Policy – For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2012, 2011, and 2010, were \$845,857, \$816,891, and \$892,133, respectively; 85.81 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$17,784 made by the School District and \$12,703 made by the plan members.

### **C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Retirement System. As of June 30, 2012, one member of the Board of Education has elected Social Security. The contribution rate is 6.2 percent of wages.

### **Note 17 - Postemployment Benefits**

#### **A. School Employees Retirement System**

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

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2012, this amount was \$35,800.

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

The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010, were \$42,351, \$62,312, and \$34,831, respectively; 45.97 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

## Wellston City School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2012, this actuarially required allocation was 0.75 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010, were \$12,335, \$12,139, and \$16,258, respectively; 45.97 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

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

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board the authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010, were \$65,066, \$62,838, and \$68,626, respectively; 85.81 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

### **Note 18 - 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 30 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 United Healthcare. Monthly premiums for this coverage are \$1,749.71 for family coverage and \$583.23 for single coverage. Dental insurance is provided by CoreSource and vision insurance is provided by Guardian Insurance. Monthly premiums for this coverage are \$63.51 for family coverage and \$25.48 for single coverage. The School District pays 98% of both family and single coverage premiums.

## Wellston City School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

### Note 19 - Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2012 were as follows:

	Principal Outstanding 6/30/11	Additions	Deductions	Principal Outstanding 6/30/12	Amounts Due Within One Year
<b>Governmental Activities:</b>					
1999 3.30% - 5.85% School Construction General Obligation Bonds					
	\$1,085,000	\$0	\$150,000	\$935,000	\$165,000
2010 1.00% - 3.15% Classroom Facilities Refunding Bonds:					
Serial Bonds					
	1,175,000	0	20,000	1,155,000	20,000
Capital Appreciation Bonds					
	70,000	0	0	70,000	0
Accretion of Capital					
Appreciation Bonds					
	3,790	15,025	0	18,815	0
Serial Bond Premium					
	104,742	0	9,522	95,220	0
Deferred Amount on Refunding					
	(34,925)	0	(3,175)	(31,750)	0
2010 6.50% Qualified School Construction Bonds					
	1,690,000	500,000	110,000	2,080,000	152,000
Sick Leave Benefits					
	689,430	81,090	149,696	620,824	65,070
<b>Total Governmental Activities Long-Term Liabilities</b>					
	<u>\$4,783,037</u>	<u>\$596,115</u>	<u>\$436,043</u>	<u>\$4,943,109</u>	<u>\$402,070</u>

Compensated absences will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund; the Food Service, Public Preschool, Title VI-B Idea, Title I, Handicapped Preschool, and the Title II-A Special Revenue Funds.

**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, 2012*

Principal and interest requirements to retire the General Obligation Bonds outstanding at June 30, 2012, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$165,000	\$49,650	\$214,650
2014	175,000	39,791	214,791
2015	185,000	29,350	214,350
2016	200,000	18,135	218,135
2017	210,000	6,142	216,142
	<u>\$935,000</u>	<u>\$143,068</u>	<u>\$1,078,068</u>

**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 2012 was \$9,522. The issuance costs of \$76,164 are reported as deferred charges and are amortized over the life of the bond using the straight-line method. The amortization of the issuance costs for fiscal year 2012 was \$6,347. 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 decrease in bonds payable is being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of the difference for fiscal year 2012 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 2012 was \$15,025 and total accretion as of June 30, 2012, was \$18,815.

Principal and interest requirements to retire the Classroom Facilities Refunding Bonds outstanding at June 30, 2012, are as follows:

Fiscal Year Ending June 30,	Serial		Capital Appreciation		Total	
	Principal	Interest	Principal	Accretion	Principal	Accretion/ Interest
2013	\$20,000	\$32,775	\$0	\$0	\$20,000	\$32,775
2014	20,000	32,455	0	0	20,000	32,455
2015	20,000	32,055	0	0	20,000	32,055
2016	20,000	31,655	0	0	20,000	31,655
2017	20,000	31,230	0	0	20,000	31,230
2018-2022	1,055,000	96,673	70,000	175,000	1,125,000	271,673
	<u>\$1,155,000</u>	<u>\$256,843</u>	<u>\$70,000</u>	<u>\$175,000</u>	<u>\$1,225,000</u>	<u>\$431,843</u>

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

## Wellston City School District, Ohio

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2012*

**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. 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, 2012, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$152,000	\$122,501	\$274,501
2014	155,000	107,218	262,218
2015	161,000	98,313	259,313
2016	162,000	89,210	251,210
2017	169,000	79,892	248,892
2018-2022	886,000	234,763	1,120,763
2023-2025	395,000	38,838	433,838
	<u>\$2,080,000</u>	<u>\$770,735</u>	<u>\$2,850,735</u>

The bonds are subject to extraordinary mandatory redemption, in whole or in part, if an extension negotiated with the IRS, on a credit allowance date that occurs 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 fails 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 Qualified 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.

## Wellston City School District, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012

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.

The School District's overall legal debt margin was \$6,075,110, with an unvoted debt margin of \$103,874 at June 30, 2012.

### Note 20 - 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 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, although those requirements have been repealed as of fiscal year 2012.

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. A school district may still establish reserve balance accounts consistent with Section 5705.13, Revised Code, if it so chooses; however, the requirement is no longer mandatory. In addition, any money on hand in a school district's budget reserve set-aside as of April 10, 2001, may at the discretion of the board of education be returned to the school district's General Fund or may be left in the account and used by the board to offset any budget deficit the district may experience in future years. The bill placed special conditions on any Bureau or Workers' Compensation monies remaining in the budget reserve. During fiscal year 2002, the Board of Education passed a resolution to maintain only the refunds from the Bureau or Workers' Compensation in the budget reserve pursuant to State Statute and at June 30, 2012. This is all that continues to be set aside.

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

	Capital Improvements	Budget Stabilization
Set-Aside Balance as of as of June 30, 2011	\$0	\$56,688
Current Year Set-Aside Requirement	262,124	0
Current Year Offsets	(104,094)	0
Qualifying Expenditures	(158,030)	0
Totals	<u>\$0</u>	<u>\$56,688</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>\$0</u>	<u>\$56,688</u>
Set-Aside Balance as of June 30, 2012	<u>\$0</u>	<u>\$56,688</u>

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

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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### Note 21 – Encumbrance Commitments

At June 30, 2012, the School District had encumbrance commitments in governmental funds as follows:

General	\$199,319
Classroom Facilities	229,226
Other Governmental Funds	
Permanent Improvement	94,083
Special Trust	100
Harless Family Scholarship	5,000
Classroom Facilities Maintenance	9,145
Athletics	4,085
Race to the Top	6,179
School Improvement	4,667
Title I	655
Miscellaneous Federal	450
Total Other Governmental Funds	<u>124,364</u>
Total All Funds	<u>\$552,909</u>

See also Note 13 for significant contractual commitments.

**Wellston City School District**  
*Schedule of Federal Awards Expenditures*  
*For the Fiscal Year Ended June 30, 2012*

Federal Grantor/Pass Through Grantor/Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Non-Cash Disbursements	Non-Cash Disbursements
<b>United States Department of Agriculture</b>						
<i>Passed through the Ohio Department of Education</i>						
Child Nutrition Cluster:						
School Breakfast Program	3L70	10.553	\$154,887	\$0	\$154,887	\$0
National School Lunch Program	3L60	10.555	369,058	42,772	369,058	42,772
Total Child Nutrition Cluster			523,945	42,772	523,945	42,772
<b>Total United States Department of Agriculture</b>			523,945	42,772	523,945	42,772
<b>United States Department of Education</b>						
<i>Passed through the Ohio Department of Education</i>						
Special Education Cluster:						
Special Education-Grants to States	3M20	84.027	393,948	0	397,862	0
Special Education-Grants to States, Recovery Act	3DJ0	84.391	7,426	0	9,759	0
Special Education-Preschool Grants	3C50	84.173	13,624	0	13,624	0
Special Education-Preschool Grants, Recovery Act	3DL0	84.392	318	0	319	0
Total Special Education Cluster			415,316	0	421,564	0
Title I Cluster:						
Title I Grants to Local Educational Agencies	3M00	84.010	938,892	0	933,116	0
Title I Grants to Local Educational Agencies, Recovery Act	3D50	84.389	26,640	0	4,639	0
Total Title I Cluster			965,532	0	937,755	0
State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	GRF	84.394	0	0	50,125	0
State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	3FD0	84.395	104,868	0	94,106	0
Safe and Drug-Free Schools and Communities State Grants	3D10	84.186	75,000	0	75,000	0
Education Jobs Fund	3ET0	84.410	460,643	0	463,667	0
Educational Technology State Grants	3S20	84.318	717	0	6,714	0
Rural Education	3Y80	84.358	39,122	0	33,532	0
Improving Teacher Quality State Grants	3Y60	84.367	141,525	0	140,344	0
<b>Total United States Department of Education</b>			2,202,723	0	2,222,807	0
<b>United States Department of Health and Human Services</b>						
<i>Passed through the Ohio Department of Education</i>						
Maternal and Child Health Federal Consolidated Programs	3AX0	93.110	10,000	0	10,054	0
<b>Total United States Department of Health and Human Services</b>			10,000	0	10,054	0
<b>Total Federal Financial Assistance</b>			\$2,736,668	\$42,772	\$2,756,806	\$42,772

The notes to the schedule of federal awards expenditures are an integral part of this schedule.

**Wellston City School District**  
*Notes to the Schedule of Federal Awards Expenditures*  
*For the Fiscal Year Ended June 30, 2012*

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**Note 1 – Significant Accounting Policies**

The accompanying schedule of federal awards expenditures includes the federal grant activity of the School District and has been prepared on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**Note 2 – Child Nutrition Cluster**

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed that federal monies are expended first. Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the schedule using the entitlement value of the commodities received. The School District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wellston City School District, Jackson County, (the School District) as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements and have issued our report thereon dated December 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Wellston City School District  
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*  
Page 2

We noted certain matters that we reported to management of the School District in a separate letter dated December 28, 2012.

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

A handwritten signature in black ink, reading "Natalie Millhuff-Stang". The signature is written in a cursive, flowing style.

Natalie Millhuff-Stang, CPA  
President/Owner  
Millhuff-Stang, CPA, Inc.

December 28, 2012

**Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

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

**Compliance**

We have audited Wellston City School District's, Jackson County, (the School District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School District's major federal programs for the year ended June 30, 2012. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

**Internal Control Over Compliance**

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

**Internal Control Over Compliance (Continued)**

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 detect and correct, noncompliance with a type of 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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



Natalie Millhuff-Stang, CPA  
President/Owner  
Millhuff-Stang, CPA, Inc.

December 28, 2012

**Wellston City School District**  
*Schedule of Findings and Questioned Costs*  
*OMB Circular A-133 Section .505*  
*For the Fiscal Year Ended June 30, 2012*

**Section I – Summary of Auditor’s Results**

<i>Financial Statements</i>	
Type of financial statement opinion:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No
<i>Federal Awards</i>	
Internal control over major program(s):	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any auditing findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No
Identification of major program(s):	Education Jobs Fund (CFDA #84.410)  Title I Cluster (CFDA #84.010 and 84.389)
Dollar threshold used to distinguish between type A and type B programs:	Type A: >\$300,000 Type B: all others
Auditee qualified as low-risk auditee?	No

**Section II – Financial Statement Findings**

None

**Section III – Federal Award Findings and Questioned Costs**

None

**Wellston City School District**  
*Schedule of Prior Audit Findings*  
*OMB Circular A-133 Section .315(b)*  
*For the Fiscal Year Ended June 30, 2012*

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
Finding 2011-001	Noncompliance/Significant Deficiency – Cash Management	N/A	Finding No Longer Valid



# 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 21, 2013