

Wellston City School District  
Jackson County  
Single Audit  
For the Fiscal Year Ended June 30, 2014



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# 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, 2013 through June 30, 2014. 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

March 9, 2015

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**Wellston City School District**  
**Jackson County**  
*Table of Contents*  
*For the Fiscal Year Ended June 30, 2014*

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Title	Page
Independent Auditor’s Report.....	1
Management’s Discussion and Analysis.....	4
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position .....	14
Statement of Activities .....	15
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	16
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities.....	17
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	19
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budget Basis) – General Fund.....	20
Statement of Fund Net Position – Self Insurance Internal Service Fund .....	21
Statement of Revenues, Expenses, and Changes in Fund Net Position – Self Insurance Internal Service Fund.....	22
Statement of Cash Flows – Self Insurance Internal Service Fund .....	23
Statement of Net Position – Fiduciary Funds .....	24
Statement of Changes in Net Position – Private Purpose Trust Fund .....	25
Notes to the Basic Financial Statements .....	27
Schedule of Federal Awards Expenditures.....	55
Notes to the Schedule of Federal Awards Expenditures .....	56
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	57

Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133.....	59
Schedule of Findings and Questioned Costs OMB Circular A-133 Section .505 .....	61

**Independent Auditor's Report**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wellston City School District, Jackson County, Ohio (the School District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Wellston City School District, Jackson County, Ohio, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows, and the budgetary comparison for the General Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12 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.

#### ***Other Information***

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 schedule of federal awards expenditures, as required by 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.

The schedule of federal awards expenditures 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. Such 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2014 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* in considering the School District's internal control over financial reporting and compliance.



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

December 29, 2014

**Wellston City School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year June 30, 2014*  
*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, 2014. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

## **FINANCIAL HIGHLIGHTS**

***Key financial highlights for fiscal year 2014 are as follows:***

- Net position of governmental activities decreased \$401,628.
- General revenues accounted for \$12,747,319 in revenue or 71.8 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, contributions, and interest accounted for \$5,005,540 or 28.2 percent of total revenues of \$17,752,859.
- The School District had \$18,154,487 in expenses related to governmental activities; only \$5,005,540 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues (primarily taxes and intergovernmental) of \$12,747,319 were not adequate to cover the remaining expenses.
- Total governmental funds had \$17,573,697 in revenues and \$17,814,811 in expenditures. The total governmental fund balances decreased \$222,829.

## **USING THE BASIC FINANCIAL STATEMENTS**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Wellston City School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

The Statement of Net Position and the Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column.

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

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

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2014?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**Wellston City School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year June 30, 2014*  
*Unaudited*

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

In the Statement of Net Position and the Statement of Activities, all of the School District's activities are reported as governmental including instruction, support services, operation of non-instructional services, debt service, and extracurricular activities.

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

*Fund Financial Statements*

The analysis of the School District's major funds begins on page 9. 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 Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

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

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

**THE SCHOOL DISTRICT AS A WHOLE**

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2014 compared to 2013.

**Wellston City School District, Ohio**  
*Management's Discussion and Analysis*  
For the Fiscal Year June 30, 2014  
Unaudited

**Table 1**  
**Net Position**

	2014	2013*	Change
<b>Assets</b>			
Current and Other Assets	\$14,874,272	\$15,467,507	(\$593,235)
Capital Assets	38,044,943	38,785,613	(740,670)
Total Assets	<u>52,919,215</u>	<u>54,253,120</u>	<u>(1,333,905)</u>
<b>Deferred Outflows of Resources</b>			
Deferred Charge on Refunding	25,400	28,575	(3,175)
<b>Liabilities</b>			
Long-Term Liabilities	4,204,097	4,618,461	(414,364)
Other Liabilities	1,893,964	1,968,456	(74,492)
Total Liabilities	<u>6,098,061</u>	<u>6,586,917</u>	<u>(488,856)</u>
<b>Deferred Inflows of Resources</b>			
Property Taxes	1,972,881	2,039,353	(66,472)
<b>Net Position</b>			
Net Investment in Capital Assets	34,441,167	34,825,490	(384,323)
Restricted	4,734,850	4,756,100	(21,250)
Unrestricted	5,697,656	5,693,711	3,945
<b>Total Net Position</b>	<u>\$44,873,673</u>	<u>\$45,275,301</u>	<u>(\$401,628)</u>

\*Restated. See Note 3 of the basic financial statements.

Total assets of governmental activities decreased \$1,143,843. Current assets decreased \$593,235 primarily due to cash decreasing \$537,475. Capital assets decreased \$740,670 mainly as a result of depreciation.

Long-term liabilities decreased due to payments made on outstanding debt.

The net effect of changes in assets and liabilities resulted in a \$401,628 decrease in total net position of the School District's governmental activities.

Table 2 shows the changes in net position for the fiscal year ended June 30, 2014, and comparisons to fiscal year 2013.

**Wellston City School District, Ohio**  
*Management's Discussion and Analysis*  
For the Fiscal Year June 30, 2014  
Unaudited

Table 2  
Changes in Net Position

<b>Revenues</b>	2014	2013	Change
<b>Program Revenues:</b>			
Charges for Services and Sales	\$656,788	\$682,828	(\$26,040)
Operating Grants, Contributions and Interest	4,348,752	3,073,997	1,274,755
Capital Grants, Contributions and Interest	0	6,438	(6,438)
<b>Total Program Revenues</b>	<b>5,005,540</b>	<b>3,763,263</b>	<b>1,242,277</b>
<b>General Revenues:</b>			
Property Taxes	2,238,124	2,212,567	25,557
Grants and Entitlements	10,481,826	10,717,899	(236,073)
Gain on Sale of Capital Assets	6,098	0	6,098
Investment Earnings	16,977	14,008	2,969
Insurance Recoveries	0	110,342	(110,342)
Gifts and Donations	295	0	295
Miscellaneous	3,999	235,616	(231,617)
<b>Total General Revenues</b>	<b>12,747,319</b>	<b>13,290,432</b>	<b>(543,113)</b>
<b>Total Revenues</b>	<b>17,752,859</b>	<b>17,053,695</b>	<b>699,164</b>
<b>Program Expenses</b>			
<b>Instruction:</b>			
Regular	7,887,812	7,021,423	866,389
Special	2,771,858	2,579,428	192,430
Vocational	68,208	62,256	5,952
Adult/Continuing	2,251	15,023	(12,772)
Student Intervention Services	4,632	11,116	(6,484)
<b>Support Services:</b>			
Pupils	484,361	582,942	(98,581)
Instructional Staff	703,810	1,164,633	(460,823)
Board of Education	236,789	170,974	65,815
Administration	1,304,672	1,307,332	(2,660)
Fiscal	495,290	454,120	41,170
Operation and Maintenance of Plant	1,588,460	1,854,381	(265,921)
Pupil Transportation	1,039,666	1,178,454	(138,788)
Central	93,134	22,146	70,988
<b>Operation of Non-Instructional Services:</b>			
Food Service Operations	852,642	901,903	(49,261)
Community Services	74,554	127,126	(52,572)
Extracurricular Activities	348,537	341,020	7,517
Interest and Fiscal Charges	197,811	267,877	(70,066)
<b>Total Expenses</b>	<b>18,154,487</b>	<b>18,062,154</b>	<b>92,333</b>
<b>Change in Net Position</b>	<b>(401,628)</b>	<b>(1,008,459)</b>	<b>606,831</b>
Net Position Beginning of Year	45,465,363	46,956,463	
Prior Period Adjustment	(190,062)	(482,641)	
Net Position Beginning of Year- Restated (See Note 3)	45,275,301	46,473,822	
<b>Net Position End of Year</b>	<b>\$44,873,673</b>	<b>\$45,465,363</b>	

**Wellston City School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year June 30, 2014*  
*Unaudited*

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***Governmental Activities***

Property taxes made up approximately 12.6 percent of revenues for governmental activities. Of the remaining revenues, the School District receives 83.5 percent from state foundation, federal, and state grants; 3.7 percent from charges for services; and .2 percent from interest and local entities.

Total revenues increased \$699,164 from fiscal year 2013 to fiscal year 2014. Operating grants, contributions, and interest program revenue increased \$1,274,755 due to increased grant funding. Overall, expenses increased \$92,333.

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 12.6 percent of revenues for governmental activities for Wellston City School District in 2014. 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 59.1 percent of the School District's budget is used to fund instructional expenses. Support services make up 32.8 percent of expenses and 8.1 percent is used for interest and fiscal charges, extracurricular activities, and non-instructional services.

The Statement of Activities shows the cost of program services and the charges for services and sales, 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.

**Wellston City School District, Ohio**  
*Management's Discussion and Analysis*  
For the Fiscal Year June 30, 2014  
Unaudited

**Table 3**

	2014 Total Cost of Services	2014 Net Cost of Services	2013 Total Cost of Services	2013 Net Cost of Services
<b>Program Expenses</b>				
Instruction:				
Regular	\$7,887,812	\$6,942,966	\$7,021,423	\$6,148,780
Special	2,771,858	557,640	2,579,428	1,581,462
Vocational	68,208	42,698	62,256	36,756
Adult/Continuing	2,251	1,448	15,023	15,023
Student Intervention Services	4,632	4,632	11,116	3,742
Support Services:				
Pupils	484,361	347,873	582,942	514,373
Instructional Staff	703,810	312,118	1,164,633	723,859
Board of Education	236,789	233,039	170,974	150,283
Administration	1,304,672	1,233,494	1,307,332	1,207,183
Fiscal	495,290	487,923	454,120	391,017
Operation and Maintenance of Plant	1,588,460	1,498,149	1,854,381	1,742,782
Pupil Transportation	1,039,666	968,183	1,178,454	1,100,090
Central	93,134	49,951	22,146	22,146
Operation of Non-Instructional Services:				
Food Service Operations	852,642	72,863	901,903	112,401
Community Services	74,554	(9,931)	127,126	67,330
Extracurricular Activities	348,537	208,090	341,020	213,787
Interest and Fiscal Charges	197,811	197,811	267,877	267,877
Totals	<u>\$18,154,487</u>	<u>\$13,148,947</u>	<u>\$18,062,154</u>	<u>\$14,298,891</u>

The dependence upon tax revenues and State subsidies for governmental activities is apparent. For fiscal year 2014, approximately 72.4 percent of expenses were supported through taxes and other general revenues.

### **THE SCHOOL DISTRICT FUNDS**

The School District's governmental funds reported a combined fund balance of \$9,850,768, a decrease of \$222,829 from fiscal year 2013. All governmental funds had total revenues of \$17,573,697 and expenditures of \$17,814,811.

The School District's funds are accounted for using the modified accrual basis of accounting. The General Fund's \$404,500 decrease in fund balance is due mainly to cash decreasing \$336,541. The Classroom Facilities Capital Projects Fund's \$3,797 increase in fund balance is due to only receiving \$3,797 in investment earnings in fiscal year 2014.

### ***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.

**Wellston City School District, Ohio**  
*Management's Discussion and Analysis*  
For the Fiscal Year June 30, 2014  
Unaudited

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During the course of fiscal 2014, the School District did amend its General Fund estimated revenues and appropriations numerous times. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, the final budget basis revenue estimate was \$13,955,380, which represented an increase of \$1,733,383, or 14.2 percent from original estimates of \$12,221,997. This difference was due mainly to incorrect assumptions regarding the School District's intergovernmental revenues. The final budget basis expenditure estimate of \$16,249,463 represented a \$1,836,501, or 12.7 percent increase from the original estimates of \$14,412,962.

The School District's ending unobligated General Fund balance was \$5,832,831.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

*Capital Assets*

At the end of fiscal year 2014, the School District had \$38,044,943 invested in land, land improvements, buildings and improvements, furniture, fixtures, and equipment, and vehicles. Table 4 shows fiscal year 2014 balances compared to 2013.

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

	2014	2013
Land	\$189,885	\$189,885
Land Improvements	337,659	379,370
Buildings and Improvements	35,810,549	36,541,052
Furniture, Fixtures, and		
Equipment	1,390,382	1,407,610
Vehicles	316,468	267,696
Totals	\$38,044,943	\$38,785,613

For additional information on capital assets, see Note 16 to the basic financial statements.

**Wellston City School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year June 30, 2014*  
*Unaudited*

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**Debt**

At June 30, 2014, the School District had the following outstanding debt:

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

	2014	2013
1999 Classroom Facilities Assistance Serial Bonds	\$595,000	\$770,000
2010 Classroom Facilities Refunding Bonds:		
Serial Bonds	1,115,000	1,135,000
Capital Appreciation Bonds	70,000	70,000
Accretion on Capital Appreciation Bonds	63,005	36,705
Bond Premium	76,176	85,698
2010 Qualified School Construction Bonds	1,773,000	1,928,000
Totals	\$3,692,181	\$4,025,403

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

**CURRENT ISSUES**

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

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

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

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

**Wellston City School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year June 30, 2014*  
*Unaudited*

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

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

## **Basic Financial Statements**

**Wellston City School District, Ohio**  
*Statement of Net Position*  
*June 30, 2014*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$11,184,708
Cash and Cash Equivalents with Escrow Agents	31,216
Accounts Receivable	156,365
Accrued Interest Receivable	123
Intergovernmental Receivable	623,072
Inventory Held for Resale	5,427
Materials and Supplies Inventory	2,131
Property Taxes Receivable	2,844,367
Prepaid Items	26,863
Nondepreciable Capital Assets	189,885
Depreciable Capital Assets, Net	37,855,058
<i>Total Assets</i>	52,919,215
<b>Deferred Outflows of Resources</b>	
Deferred Charge on Refunding	25,400
<b>Liabilities</b>	
Accounts Payable	169,826
Accrued Wages and Benefits Payable	1,241,525
Retainage Payable	24,854
Accrued Interest Payable	14,153
Vacation Benefits Payable	30,124
Intergovernmental Payable	370,288
Claims Payable	43,194
Long-Term Liabilities:	
Due within One Year	397,893
Due in More than One Year	3,806,204
<i>Total Liabilities</i>	6,098,061
<b>Deferred Inflows of Resources</b>	
Property Taxes	1,972,881
<b>Net Position</b>	
Net Investment in Capital Assets	34,441,167
Restricted for:	
Capital Projects	3,128,876
Debt Service	1,008,928
Other Purposes	597,046
Unrestricted	5,697,656
<i>Total Net Position</i>	\$44,873,673

See accompanying notes to the basic financial statements

**Wellston City School District, Ohio**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2014

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Revenue and Changes in Net Position
				Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$7,887,812	\$460,656	\$484,190	(\$6,942,966)
Special	2,771,858	0	2,214,218	(557,640)
Vocational	68,208	0	25,510	(42,698)
Adult/Continuing	2,251	0	803	(1,448)
Student Intervention Services	4,632	0	0	(4,632)
Support Services:				
Pupils	484,361	0	136,488	(347,873)
Instructional Staff	703,810	0	391,692	(312,118)
Board of Education	236,789	0	3,750	(233,039)
Administration	1,304,672	0	71,178	(1,233,494)
Fiscal	495,290	0	7,367	(487,923)
Operation and Maintenance of Plant	1,588,460	5,450	84,861	(1,498,149)
Pupil Transportation	1,039,666	0	71,483	(968,183)
Central	93,134	0	43,183	(49,951)
Operation of Non-Instructional Services:				
Food Service Operations	852,642	99,335	680,444	(72,863)
Community Services	74,554	0	84,485	9,931
Extracurricular Activities	348,537	91,347	49,100	(208,090)
Interest and Fiscal Charges	197,811	0	0	(197,811)
<b>Totals</b>	<b>\$18,154,487</b>	<b>\$656,788</b>	<b>\$4,348,752</b>	<b>(13,148,947)</b>

**General Revenues**

Property Taxes Levied for:

General Purposes	1,944,777
Debt Service	166,030
Classroom Facilities Maintenance	37,268
Capital Projects	90,049
Grants and Entitlements not Restricted to Specific Programs	10,481,826
Gain on Sale of Capital Assets	6,098
Investment Earnings	16,977
Gifts and Donations	295
Miscellaneous	3,999

*Total General Revenues* 12,747,319

*Change in Net Position* (401,628)

*Net Position Beginning of Year - Restated (See Note 3)* 45,275,301

*Net Position End of Year* \$44,873,673

See accompanying notes to the basic financial statements

**Wellston City School District, Ohio**

*Balance Sheet*

*Governmental Funds*

*June 30, 2014*

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$6,095,549	\$3,122,514	\$1,624,533	\$10,842,596
Restricted Assets:				
Cash and Cash Equivalents With Escrow Agents	0	31,216	0	31,216
Receivables:				
Property Taxes	2,543,826	0	300,541	2,844,367
Accounts	3,390	0	151,500	154,890
Intergovernmental	196,019	0	427,053	623,072
Interfund	124,317	0	0	124,317
Interest	123	0	0	123
Prepaid Items	26,863	0	0	26,863
Inventory Held for Resale	0	0	5,427	5,427
Materials and Supplies Inventory	0	0	2,131	2,131
<i>Total Assets</i>	<u>\$8,990,087</u>	<u>\$3,153,730</u>	<u>\$2,511,185</u>	<u>\$14,655,002</u>
<b>Liabilities</b>				
Accounts Payable	\$168,766	\$0	\$1,060	\$169,826
Accrued Wages and Benefits Payable	1,036,173	0	205,352	1,241,525
Retainage Payable	0	24,854	0	24,854
Interfund Payable	0	0	124,317	124,317
Intergovernmental Payable	310,449	0	59,839	370,288
<i>Total Liabilities</i>	<u>1,515,388</u>	<u>24,854</u>	<u>390,568</u>	<u>1,930,810</u>
<b>Deferred Inflows of Resources</b>				
Property Taxes	1,758,531	0	214,350	1,972,881
Unavailable Revenue	618,200	0	282,343	900,543
<i>Total Deferred Inflows of Resources</i>	<u>2,376,731</u>	<u>0</u>	<u>496,693</u>	<u>2,873,424</u>
<b>Fund Balances</b>				
Nonspendable	26,863	0	2,131	28,994
Restricted	0	3,128,876	1,397,432	4,526,308
Committed	0	0	2,250	2,250
Assigned	2,662,170	0	268,287	2,930,457
Unassigned	2,408,935	0	(46,176)	2,362,759
<i>Total Fund Balances</i>	<u>5,097,968</u>	<u>3,128,876</u>	<u>1,623,924</u>	<u>9,850,768</u>
<i>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</i>	<u>\$8,990,087</u>	<u>\$3,153,730</u>	<u>\$2,511,185</u>	<u>\$14,655,002</u>

See accompanying notes to the basic financial statements

**Wellston City School District, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 June 30, 2014*

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<b>Total Governmental Fund Balances</b>	<b>\$9,850,768</b>
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*Amounts reported for governmental activities in the statement of net position are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	38,044,943
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Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds:		
Delinquent Property Taxes	684,757	
Grants	214,620	
Tuition and Fees	1,166	
Total		900,543

Accrued interest payable is recognized for outstanding long-term liabilities with interest accruals that are not expected to be paid with expendable available resources and therefore are not reported in the funds.	(14,153)
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Vacation Benefits Payable is recognized for earned vacation benefits that are to be used within one year but is not recognized on the balance sheet until due.	(30,124)
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
General Obligation Bonds - Serial	(1,710,000)	
General Obligation Bonds - Capital Appreciation	(70,000)	
Accretion on Capital Appreciation Bonds Interest	(63,005)	
Premiums on Serial and Capital Appreciation Bonds	(76,176)	
Refunding Difference	25,400	
Qualified School Construction Bonds	(1,773,000)	
Compensated Absences Payable	(511,916)	
Total		(4,178,697)

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.	300,393
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<i>Net Position of Governmental Activities</i>	<u><u>\$44,873,673</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, 2014*

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property Taxes	\$1,945,236	\$0	\$300,928	\$2,246,164
Intergovernmental	11,732,352	0	2,823,273	14,555,625
Investment Earnings	11,288	3,797	2,482	17,567
Tuition and Fees	458,868	0	0	458,868
Rent	5,450	0	0	5,450
Extracurricular	10,965	0	80,382	91,347
Gifts and Donations	10,396	0	84,324	94,720
Charges for Services	622	0	99,335	99,957
Miscellaneous	3,867	0	132	3,999
<i>Total Revenues</i>	<u>14,179,044</u>	<u>3,797</u>	<u>3,390,856</u>	<u>17,573,697</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	7,269,423	0	424,723	7,694,146
Special	1,535,592	0	990,258	2,525,850
Vocational	64,722	0	0	64,722
Adult/Continuing	2,251	0	0	2,251
Student Intervention Services	3,832	0	800	4,632
Support Services:				
Pupils	431,467	0	47,321	478,788
Instructional Staff	341,118	0	361,499	702,617
Board of Education	233,039	0	3,750	236,789
Administration	1,156,712	0	70,537	1,227,249
Fiscal	432,369	0	16,432	448,801
Operation and Maintenance of Plant	1,446,825	0	158,823	1,605,648
Pupil Transportation	1,044,066	0	45,135	1,089,201
Central	41,825	0	43,000	84,825
Operation of Non-Instructional Services:				
Food Service Operations	0	0	3,942	3,942
Community Services	939	0	69,673	70,612
Extracurricular Activities	166,419	0	121,365	287,784
Debt Service:				
Principal Retirement	155,000	0	195,000	350,000
Interest and Fiscal Charges	107,218	0	72,245	179,463
<i>Total Expenditures</i>	<u>14,432,817</u>	<u>0</u>	<u>3,381,994</u>	<u>17,814,811</u>
<i>Excess of Revenues Over (Under)</i> <i>Expenditures</i>	<u>(253,773)</u>	<u>3,797</u>	<u>8,862</u>	<u>(241,114)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	0	0	169,012	169,012
Proceeds from Sale of Capital Assets	18,285	0	0	18,285
Transfers Out	(169,012)	0	0	(169,012)
<i>Total Other Financing Sources (Uses)</i>	<u>(150,727)</u>	<u>0</u>	<u>169,012</u>	<u>18,285</u>
<i>Net Change in Fund Balance</i>	(404,500)	3,797	177,874	(222,829)
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>5,502,468</u>	<u>3,125,079</u>	<u>1,446,050</u>	<u>10,073,597</u>
<i>Fund Balances End of Year</i>	<u>\$5,097,968</u>	<u>\$3,128,876</u>	<u>\$1,623,924</u>	<u>\$9,850,768</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, 2014*

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**Net Change in Fund Balances - Total Governmental Funds** (S222,829)

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

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

Capital Asset Additions	481,754	
Depreciation Expense	<u>(1,210,237)</u>	(728,483)

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

Disposal of Capital Assets	12,187	
Gain on Disposal of Capital Assets	(6,089)	
Proceeds from Sale of Capital Assets	<u>(18,285)</u>	(12,187)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net change of the internal service fund is reported with governmental activities. (23,960)

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

Delinquent Property Taxes	(8,040)	
Grants	179,938	
Tuition and Fees	<u>1,166</u>	173,064

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 350,000

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

Accrued Interest Payable	1,605	
Amortization of Serial Premium	9,522	
Amortization of Deferred Amount on Refunding	(3,175)	
Annual Accretion	<u>(26,300)</u>	(18,348)

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

Vacation Benefits Payable	(27)	
Sick Leave Benefits Payable	<u>81,142</u>	<u>81,115</u>

*Change in Net Position of Governmental Activities* (\$401,628)

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, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>Revenues</b>				
Property Taxes	\$1,928,709	\$1,903,309	\$1,903,223	(\$86)
Intergovernmental	9,949,752	11,648,965	11,702,851	53,886
Investment Earnings	12,674	12,674	11,165	(1,509)
Tuition and Fees	364,590	382,843	381,155	(1,688)
Rent	3,180	4,950	4,950	0
Gifts and Donations	0	300	295	(5)
Miscellaneous	(36,908)	2,339	2,258	(81)
<i>Total Revenues</i>	12,221,997	13,955,380	14,005,897	50,517
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	6,781,930	7,890,827	7,306,784	584,043
Special	1,566,501	1,757,593	1,580,502	177,091
Vocational	75,428	80,160	66,501	13,659
Adult/Continuing	25,000	25,000	3,832	21,168
Student Intervention Services	0	10,089	3,441	6,648
Other	38,281	35,305	20,994	14,311
Support Services:				
Pupils	477,526	491,932	466,177	25,755
Instructional Staff	419,856	450,690	363,994	86,696
Board of Education	226,879	323,124	240,600	82,524
Administration	1,068,961	1,254,510	1,172,055	82,455
Fiscal	454,581	483,773	461,974	21,799
Operation and Maintenance of Plant	1,933,508	1,807,196	1,504,762	302,434
Pupil Transportation	1,149,066	1,173,910	1,061,292	112,618
Central	41,911	47,045	43,156	3,889
Extracurricular Activities	153,534	156,091	147,124	8,967
Debt Service				
Principal	0	155,000	155,000	0
Interest	0	107,218	107,218	0
<i>Total Expenditures</i>	14,412,962	16,249,463	14,705,406	1,544,057
<i>Excess of Revenues Under Expenditures</i>	(2,190,965)	(2,294,083)	(699,509)	1,594,574
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Capital Assets	8,500	18,285	18,285	0
Refund of Prior Year Expenditures	13,054	365	365	0
Refund of Prior Year Receipts	0	(25,466)	(25,466)	0
Insurance Recoveries	110,342	87,631	0	(87,631)
Transfers Out	0	(169,012)	(169,012)	0
Advances In	336,905	336,905	336,805	(100)
Advances Out	(200,000)	(140,000)	(12,862)	127,138
<i>Total Other Financing Sources (Uses)</i>	268,801	108,708	148,115	39,407
<i>Net Change in Fund Balance</i>	(1,922,164)	(2,185,375)	(551,394)	1,633,981
<i>Fund Balance Beginning of Year</i>	5,887,443	5,887,443	5,887,443	0
Prior Year Encumbrances Appropriated	496,782	496,782	496,782	0
<i>Fund Balance End of Year</i>	\$4,462,061	\$4,198,850	\$5,832,831	\$1,633,981

See accompanying notes to the basic financial statements

**Wellston City School District, Ohio**  
*Statement of Fund Net Position*  
*Self-Insurance Internal Service Fund*  
*June 30, 2014*

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<b>Current Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$342,112
Accounts Receivable	<u>1,475</u>
<i>Total Assets</i>	343,587
 <b>Current Liabilities</b>	
Claims Payable	<u>43,194</u>
 <b>Net Position</b>	
Unrestricted	<u><u>\$300,393</u></u>

See accompanying notes to the basic financial statements

**Wellston City School District, Ohio**  
*Statement of Revenues, Expenses and Changes in Fund Net Position*  
*Self-Insurance Internal Service Fund*  
*For the Fiscal Year Ended June 30, 2014*

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**Operating Revenues**

Charges for Services \$211,953

**Operating Expenses**

Purchased Services 18,528

Claims 217,385

*Total Operating Expenses* 235,913

*Operating Loss* (23,960)

*Net Position Beginning of Year* 324,353

*Net Position End of Year* \$300,393

See accompanying notes to the basic financial statements

**Wellston City School District, Ohio**  
*Statement of Cash Flows*  
*Self-Insurance Internal Service Fund*  
*For the Fiscal Year Ended June 30, 2014*

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

**Cash Flows from Operating Activities**

Cash Received from Transactions with Other Funds	\$210,478
Cash Payments for Goods and Services	(18,528)
Cash Payments for Claims	<u>(212,581)</u>

Net Cash Used for Operating Activities (20,631)

*Cash and Cash Equivalents Beginning of Year* 362,743

*Cash and Cash Equivalents End of Year* \$342,112

**Reconciliation of Operating Loss to Net**

**Cash Used for Operating Activities**

Operating Loss (\$23,960)

Changes in Assets and Liabilities:

Increase in Accounts Receivable (1,475)

Increase in Claims Payable 4,804

Net Cash Used for Operating Activities (\$20,631)

See accompanying notes to the basic financial statements

**Wellston City School District, Ohio**  
*Statement of Net Position*  
*Fiduciary Funds*  
*June 30, 2014*

	Private Purpose Trust	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$193,763	\$48,057
<b>Liabilities</b>		
Due to Students	0	\$48,057
<b>Net Position</b>		
Restricted for Endowments	183,763	
Held in Trust for Scholarships	10,000	
Total Net Position	\$193,763	

See accompanying notes to the basic financial statements

**Wellston City School District, Ohio**  
*Statement of Changes in Net Position*  
*Private Purpose Trust Fund*  
*For the Fiscal Year Ended June 30, 2014*

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	<u>Private Purpose Trust</u>
<b>Additions</b>	
Gifts and Contributions	\$11,818
Investment Earnings	<u>\$383</u>
Total Additions	12,201
<b>Deductions</b>	
Scholarships	<u>8,500</u>
<i>Change in Net Position</i>	3,701
<i>Net Position Beginning of Year - Restated (See Note 3)</i>	<u>190,062</u>
<i>Net Position End of Year</i>	<u><u>\$193,763</u></u>

See accompanying notes to the basic financial statements

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**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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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 72 classified employees, 109 certified teaching personnel, and 8 administrators, who provide services to 1,464 students and other community members.

***Reporting Entity***

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

The following activity is included within the reporting entity:

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

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

The School District participates in the 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, Inc. (SORSA) and Ohio School Boards Association Workers' Compensation Group Rating Plan which are defined as insurance purchasing pools. These organizations are presented in Notes 10 and 11.

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

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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***A. Basis of Presentation***

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

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

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

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

***B. Fund Accounting***

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

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

***General Fund*** The General Fund is used to account for and report all financial resources not accounted for and reported in another fund. The General Fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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***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.

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

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

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

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

### ***C. Measurement Focus***

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

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

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

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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***D. Basis of Accounting***

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the financial statements of the proprietary funds are prepared using the accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows/outflows of resources, and in the presentation of expenses versus expenditures.

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 8). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

***Deferred Outflows/Inflows of Resources*** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources includes a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2014, but which were levied to finance fiscal year 2014 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes, tuition and fees, and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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**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 with escrow agents" since they are kept separate from the School District treasury.

During fiscal year 2014, investments were limited to non-negotiable certificates of deposit, which are reported at cost, and to the State Treasury Asset Reserve of Ohio (STAR Ohio).

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, 2014.

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 and Classroom Maintenance Special Revenue Funds, the Bond Retirement Debt Service Fund, the Classroom Facilities Capital Projects Fund, and the Private Purpose Trust Fund. Interest revenue credited to the General Fund during fiscal year 2014 amounted to \$11,288, which includes \$1,048 assigned from other School District funds.

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

***F. Inventory***

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

***G. 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 position but are not reported in the fund financial statements.

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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

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

***H. Internal Activity***

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

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

***I. 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 fourteen years of service.

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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

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

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

***K. Bond Premium, Discounts, and Accounting Gains***

On the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums are amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds. Bond discounts on the capital appreciation bonds are accreted over the term of the bonds.

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

On the government-wide financial statements, bond premiums are recognized in the period in which bonds are issued. The face amount of the debt issue is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources.

***L. Fund Balance***

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

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

**Restricted:** 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.

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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**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 or a School District official delegated that authority by resolution or by State Statute.

**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.

***M. Interfund Balances***

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

***N. 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.

***O. Net Position***

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through external restrictions imposed by creditors and grantors, or laws or regulations of other governments. Net position restricted for other purposes include music and athletic programs and local, federal, and state grants restricted to expenditure for specified purposes.

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

***P. 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.

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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

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

**Note 3 - Restatement of Prior Fiscal Year's Fund Balance/Net Position**

At June 30, 2013, the School District's Private Purpose Trust Fund was incorrectly classified. The effects of these changes are as follows:

	Other Governmental Funds	Total Governmental Funds
Fund Balances 6/30/13	\$1,636,112	\$10,263,659
Fund Reclassification:		
Committed	(179,950)	(179,950)
Restricted	(112)	(112)
Nonspendable	(10,000)	(10,000)
Fund Balances 7/1/13	<u>\$1,446,050</u>	<u>\$10,073,597</u>

	Governmental Activities	Private Purpose Trust Fund
Net Position 6/30/13	\$45,465,363	\$0
Fund Reclassification:		
Unrestricted	(179,950)	0
Restricted for Other Purposes	(112)	0
Restricted for Endowments	0	180,062
Nonexpendable Trust	(10,000)	10,000
Net Position 7/1/13	<u>\$45,275,301</u>	<u>\$190,062</u>

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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**Note 4 - Fund Deficits**

The following funds had deficit fund balances as of June 30, 2014:

	<u>Deficit</u>
<b>Special Revenue Funds:</b>	
Title VI-B Idea	(\$34,928)
Title I	(9,244)
Preschool Grants	(6)
Improving Teacher Quality	(1,998)

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

**Note 5 - Budgetary Basis of Accounting**

While the School District is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statements of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP (modified accrual) basis are as follows:

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 committed or assigned fund balance (GAAP basis).
4. Advances In and Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
5. Certain funds are accounted for as separate funds internally with legally adopted budgets (budget basis) that do not meet the definition of special revenue funds under GASB Statement No. 54 and were reported with the General Fund (GAAP basis).
6. Prepaid items are reported on the balance sheet (GAAP basis), not on the budgetary basis.

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

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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Net Change in Fund Balance	
GAAP Basis	(\$404,500)
Revenue Accruals	(134,991)
Expenditure Accruals	(94,403)
Ending Prepaid Items	(26,863)
To reclassify excess of revenues and other sources of financial resources over expenditures into financial statement fund types	(10,361)
Advances In	336,805
Advances Out	(12,862)
Encumbrances	<u>(204,219)</u>
Budget Basis	<u><u>(\$551,394)</u></u>

**Note 6 - Fund Balances**

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

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2014

Fund Balances	General Fund	Classroom Facilities Fund	Other Governmental Funds	Total
Nonspendable:				
Prepaid Items	\$26,863	\$0	\$0	\$26,863
Materials and Supplies Inventory	0	0	2,131	2,131
<i>Total Nonspendable</i>	<u>26,863</u>	<u>0</u>	<u>2,131</u>	<u>28,994</u>
Restricted for:				
Food Service Operations	0	0	3,130	3,130
Local Grant Expenditures	0	0	13,737	13,737
State Grant Expenditures	0	0	28,837	28,837
Federal Grant Expenditures	0	0	3,463	3,463
Athletics	0	0	36,088	36,088
Debt Service Payments	0	0	970,407	970,407
Capital Improvements	0	3,128,876	320,055	3,448,931
Scholarships	0	0	21,715	21,715
<i>Total Restricted</i>	<u>0</u>	<u>3,128,876</u>	<u>1,397,432</u>	<u>4,526,308</u>
Committed to:				
Scholarships	0	0	2,250	2,250
Assigned to:				
Classroom Supplies	58,586	0	0	58,586
Encumbrances	90,635	0	0	90,635
Capital Improvements	0	0	268,287	268,287
Fiscal Year 2015 Appropriations	2,512,949	0	0	2,512,949
<i>Total Assigned</i>	<u>2,662,170</u>	<u>0</u>	<u>268,287</u>	<u>2,930,457</u>
Unassigned:	2,408,935	0	(46,176)	2,362,759
<i>Total Fund Balances</i>	<u>\$5,097,968</u>	<u>\$3,128,876</u>	<u>\$1,623,924</u>	<u>\$9,850,768</u>

**Note 7 - Deposits and Investments**

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

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

Inactive deposits are public deposits that the Board 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:

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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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 yearend, 100 % of the School District's bank balance of \$7,030,051 was either covered by FDIC or collateralized by the financial institutions' public entity deposit pools in the manner described above.

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

**Investments** As of June 30, 2014, the School District's investment in STAR Ohio had an average maturity of 51.4 days and a fair value of \$4,645,188. The School District also had \$31,216 in a Federated Automated Government Money Trust money market fund, which has an average maturity of one day. The School District's STAR Ohio investment comprises over 99 percent of total investments.

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

**Credit Risk** STAR Ohio and the money market fund carry a rating of AAAM by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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standard rating service. The School District has no investment policy dealing with investment credit risk beyond the requirements in State statutes.

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

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

### **Note 8 - Property Taxes**

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2014 represents collections of calendar year 2013 taxes. Real property taxes received in calendar year 2014 were levied after April 1, 2013, on the assessed value listed as of January 1, 2013, the lien date. Assessed values for real property taxes are established by State statute at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2014 represents collections of calendar year 2013 taxes. Public utility real property taxes received in calendar year 2014 became a lien December 31, 2012, were levied after April 1, 2013, and are collected in 2014 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Jackson County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2014, are available to finance fiscal year 2014 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility taxes which are measurable as of June 30, 2014, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources – property taxes.

The amount available as an advance at June 30, 2014, was \$168,261 in the General Fund, \$14,364 in the Bond Retirement Debt Service Fund, and \$4,104 in the Classroom Facilities Maintenance Special Revenue Fund. The amount available as an advance at June 30, 2013, was \$126,248 in the General Fund, \$12,317 in the Bond Retirement Debt Service Fund, and \$3,079 in the Classroom Facilities Maintenance Special Revenue Fund.

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2014

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

The assessed values upon which the fiscal year 2014 taxes were collected are:

	2013 Second Half Collections		2014 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$80,620,140	77.31%	\$80,892,660	77.31%
Commerical/Industrial and Public Utility Real	15,966,520	15.31%	15,688,560	14.99%
Public Utility Personal	7,701,680	7.38%	8,055,340	7.70%
	<u>\$104,288,340</u>	<u>100.00%</u>	<u>\$104,636,560</u>	<u>100.00%</u>
Tax Rate per \$1,000 of assessed valuation		\$23.00		\$22.75

**Note 9 - Receivables**

Receivables at June 30, 2014, consisted of property taxes, interfund, 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.

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	Amounts
<i>Major Fund</i>	
General Fund	\$196,019
<i>Nonmajor Funds</i>	
Lunchroom	5,402
Athletics	76
Public Preschool	30,320
Safety Grant	3,814
Race to the Top	63,150
IDEA-B	99,143
Title I	203,728
Handicapped Preschool	3,359
Improving Teacher Quality	18,061
<i>Total Nonmajor Funds</i>	<u>427,053</u>
<b>Total</b>	<u><u>\$623,072</u></u>

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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**Note 10 - Jointly Governed Organizations**

***A. 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 27 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 2014, the School District paid \$53,787 to SEOVEC. To obtain financial information write to the Southeastern Ohio Voluntary Education Cooperative, at 221 North Columbus Road, Athens, Ohio 45701.

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

The Gallia-Jackson-Vinton Joint Vocational School District is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the various City and County Boards within Gallia, Jackson, and Vinton Counties. The Board possesses its own budgeting and taxing authority. During fiscal year 2014, the School District paid \$6,152 to the Gallia-Jackson-Vinton Joint Vocational School District. To obtain financial information write to the Gallia-Jackson-Vinton Joint Vocational School District, Donalyn Smith who serves as Treasurer, P.O. Box 157, Rio Grande, Ohio, 45674.

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

The Coalition of Rural and Appalachian Schools 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 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 2014, the School District paid \$325 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 11 - Insurance Purchasing Pools**

***A. 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.

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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.

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

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

**Note 12 - Interfund Balances**

Interfund balances at June 30, 2014, arise from the provision of cash flow resources from the General Fund until the receipt of grant monies or other program revenues by the Special Revenue Funds, or the receipts of property tax revenue in the Bond Retirement Debt Service Fund.

	Interfund Receivables	Interfund Payables
<b>General Fund</b>	\$124,317	\$0
<b>Other Governmental Funds:</b>		
Bond Retirement	0	6,395
Food Service	0	53,500
Athletics	0	15,120
Public Preschool	0	11,292
Title VI-B	0	36,440
Early Childhood	0	1,570
Total Other Governmental Funds	0	124,317
Total All Funds	\$124,317	\$124,317

**Note 13 - Contingencies**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2014, if applicable, cannot be determined at this time.

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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***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 14 - Significant Commitments**

***A. Contractual Commitments***

As of June 30, 2014, the School District's contractual purchase commitments are as follows:

Project	Fund	Contract Amount	Amount Expended	Balance at 06/30/14
HVAC Improvement	Classroom Facilities Capital Projects	\$135,000	\$67,500	\$67,500
Paving Project	General Fund	42,000	0	42,000

***B. Encumbrances***

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

Fund	Amount
General Fund	\$204,499
Nonmajor Governmental Funds	109,753
Total	<u>\$314,252</u>

**Note 15 - Risk Management**

***A. Property and Liability***

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2014, the School District participated with other school districts in Ohio in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool (Note 11). 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, 2014*

Property	Deductible	Limits of Coverage
Building and Contents - Replacement Cost	\$0	\$55,359,384
General Liability:		
Each Occurrence		15,000,000
Aggregate Limit		15,000,000
Products - Completed Operations Aggregate Limit		15,000,000
Personal and Advertising Injury Limit - Each Offense		15,000,000
Employers' Liability:		
Each Occurrence		15,000,000
Disease - Each Employee		15,000,000
Disease - Policy Limit		15,000,000
Employee Benefits Liability:		
Each Occurrence		15,000,000
Aggregate Limit		15,000,000
Vehicles:		
Bodily Injury:		
Per Person		2,000,000
Per Accident		15,000,000
Property Damage		2,000,000
Uninsured Motorist:		
Per Person		100,000
Per Accident		1,000,000

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

***B. Workers' Compensation***

For fiscal year 2014, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 11). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

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

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

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2014

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

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

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

Fiscal Year	Balance at Beginning of Fiscal Year	Current Fiscal Year Claims	Claims Payments	Balance at End of Fiscal Year
2013	\$37,439	\$149,855	\$148,904	\$38,390
2014	38,390	217,385	212,581	43,194

**Note 16 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance at 6/30/13	Additions	Deductions	Balance at 6/30/14
Capital Assets:				
Capital Assets not being Depreciated:				
Land	\$189,885	\$0	\$0	\$189,885
Depreciable Capital Assets:				
Land Improvements	600,475	7,900	0	608,375
Buildings and Improvements	44,302,338	123,981	(22,984)	44,403,335
Furniture, Fixtures, and Equipment	4,500,671	253,575	(171,040)	4,583,206
Vehicles	758,236	96,298	(345,950)	508,584
Total Depreciable Capital Assets	50,161,720	481,754	(539,974)	50,103,500
Less Accumulated Depreciation:				
Land Improvements	(221,105)	(49,611)	0	(270,716)
Buildings and Improvements	(7,761,286)	(852,186)	20,686	(8,592,786)
Furniture, Fixtures, and Equipment	(3,093,061)	(264,736)	164,973	(3,192,824)
Vehicles	(490,540)	(43,704)	342,128	(192,116)
Total Accumulated Depreciation	(11,565,992)	(1,210,237) *	527,787	(12,248,442)
Total Capital Assets being Depreciated, Net	38,595,728	(728,483)	(12,187)	37,855,058
Capital Assets, Net	\$38,785,613	(\$728,483)	(\$12,187)	\$38,044,943

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

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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Instruction:	
Regular	\$418,371
Special	222,825
Vocational	5,415
Support Services:	
Pupils	32,591
Instructional Staff	27,176
Administration	76,114
Fiscal	16,347
Operation and Maintenance of Plant	54,352
Pupil Transportation	173,659
Central	5,415
Food Service Operations	100,670
Extracurricular Activities	77,302
	Total Depreciation Expense
	\$1,210,237

**Note 17 - Defined Benefit Pension Plans**

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

Plan Description – The School District participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2014, the allocation to pension and death benefits was 13.10 percent. The remaining 0.90 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The School District’s required contributions for pension obligations to SERS for the fiscal years ended June 30, 2014, 2013, and 2012, were \$276,074, \$183,267 and \$220,744, respectively. For fiscal year 2014, 76.38 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

***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 system. 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 can be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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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 multiplied by a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC 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 payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

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

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The statutory maximum employee contribution rate will be increased one percent each year beginning July 1, 2013, until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2014, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan were \$817,032 and \$37,398 for the fiscal year ended June 30, 2014, \$675,221 and \$18,361 for the fiscal year ended June 30, 2013, and \$845,847 and \$17,784 for the fiscal year ended June 30, 2012. For fiscal year 2014, 83.22 percent has been contributed for the DB plan and 87.03 percent has been contributed for the Combined Plan, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

Contributions made to STRS Ohio for the DC Plan and for fiscal year 2014 were \$8,149 made by the School District and \$6,403 made by the plan members. In addition, member contributions of \$22,981 were made for fiscal year 2014 for the defined contribution portion of the Combined Plan.

***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 of Ohio have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2014, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages.

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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**Note 18 - Postemployment Benefits**

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

Plan Description – The School District participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians’ fees through several types of plans including HMO’s, PPO’s, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS’ website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

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 fiscal year 2014, 0.14 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 fiscal year 2014, this amount was \$20,250. During fiscal year 2014, the School District paid \$30,938 in surcharge.

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

The School District’s contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$33,316, \$32,560, and \$42,351, respectively. For fiscal year 2014, 5.04 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2014, this actuarially required allocation was 0.76 percent of covered payroll. The School District’s contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012, were \$16,044, \$10,272, and \$12,335 respectively. For fiscal year 2014, 76.42 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

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

Plan Description – The School District participates in 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. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians’ fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012, were \$59,078, \$53,435, and \$65,066 respectively. For fiscal year 2014, 81.33 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

**Note 19 - Employee Benefits**

***A. Compensated Absences***

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

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

***B. Insurance Benefits***

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

Health insurance is provided through United Healthcare. Monthly premiums for this coverage are \$2,032 for family coverage and \$677 for single coverage. Dental insurance is provided by CoreSource and vision insurance is provided by Guardian Insurance. Monthly premiums for this coverage are \$67 for family coverage and \$27 for single coverage. The School District pays 92% 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, 2014

**Note 20 - Long-Term Obligations**

Changes in long-term obligations of the School District during fiscal year 2014 were as follows:

	Principal Outstanding 6/30/13	Additions	Deductions	Principal Outstanding 6/30/14	Amounts Due Within One Year
<b>Governmental Activities:</b>					
1999 3.30% - 5.85% School Construction General Obligation Bonds	\$770,000	\$0	\$175,000	\$595,000	\$185,000
2010 1.00% - 3.15% Classroom Facilities Refunding Bonds:					
Serial Bonds	1,135,000	0	20,000	1,115,000	20,000
Capital Appreciation Bonds	70,000	0	0	70,000	0
Accretion of Capital Appreciation Bonds	36,705	26,300	0	63,005	0
Serial Bond Premium	85,698	0	9,522	76,176	0
2010 6.50% Qualified School Construction Bonds	1,928,000	0	155,000	1,773,000	161,000
<b>Total Bonds Payable</b>	<b>4,025,403</b>	<b>26,300</b>	<b>359,522</b>	<b>3,692,181</b>	<b>366,000</b>
Sick Leave Benefits	593,058	0	81,142	511,916	31,893
<b>Total Governmental Activities Long-Term Liabilities</b>	<b>\$4,618,461</b>	<b>\$26,300</b>	<b>\$440,664</b>	<b>\$4,204,097</b>	<b>\$397,893</b>

Compensated absences will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund and the Food Service, Title VI-B Idea, Title I, and the Improving Teacher Quality Special Revenue Funds.

**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 funding 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.

Principal and interest requirements to retire the General Obligation Bonds outstanding at June 30, 2014, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2015	\$185,000	\$29,350	\$214,350
2016	200,000	18,135	218,135
2017	210,000	6,142	216,142
	<b>\$595,000</b>	<b>\$53,627</b>	<b>\$648,627</b>

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2014

**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 2014 was \$9,522. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$38,100. This difference, reported as a deferred outflow of resources, is being amortized to interest expense over the life of the refunded bonds using the straight-line method. The amortization of the difference for fiscal year 2014 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 2014 was \$26,300 and total accretion as of June 30, 2014, was \$63,005.

Principal and interest requirements to retire the Classroom Facilities Refunding Bonds outstanding at June 30, 2014, are as follows:

Fiscal Year Ending June 30,	Serial		Capital Appreciation		Total	
	Principal	Interest	Principal	Accretion	Principal	Accretion/ Interest
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	0	31,005	70,000	175,000	70,000	206,005
2019	250,000	27,724	0	0	250,000	27,724
2020-2022	805,000	37,944	0	0	805,000	37,944
	<u>\$1,115,000</u>	<u>\$191,613</u>	<u>\$70,000</u>	<u>\$175,000</u>	<u>\$1,185,000</u>	<u>\$366,613</u>

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

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

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2014

Annual base rent requirements to retire the Qualified School Construction Bonds outstanding at June 30, 2014, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2015	\$161,000	\$98,313	\$259,313
2016	162,000	89,210	251,210
2017	169,000	79,892	248,892
2018	171,000	70,342	241,342
2019	172,000	60,740	232,740
2020-2024	803,000	152,610	955,610
2025	135,000	8,775	143,775
	<u>\$1,773,000</u>	<u>\$559,882</u>	<u>\$2,332,882</u>

The bonds were subject to extraordinary mandatory redemption, in whole or in part, if an extension negotiated with the IRS, on a credit allowance date that occurred on or before September 27, 2013, in authorized denominations, at a redemption price equal to the principal amount of the bonds called for redemption plus accrued interest thereon to the redemption date, in an amount equal to the unexpended proceeds of the sale of the bonds held by the School District, but only to the extent that the School District 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 Qualifies School Construction Bond status, the Tax Credit bonds are subject to extraordinary mandatory redemption prior to their fixed maturity date, in whole, on the date designated by the School District, which date shall be a date prior to the January 15 following the next succeeding August 1, after a Determination of Loss of Qualified School Construction Bond status, at a redemption price equal to (i) the principal amount of the Tax Credit Bonds called for redemption, plus (ii) the redemption premium, plus (iii) accrued interest on the principal amount of the Tax Credit Bonds called for redemption plus the interest owed from the supplemental coupon from the Tax Credit Allowance Date immediately preceding the redemption date, to the date of redemption.

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

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

The School District's overall legal debt margin was \$8,616,697, with an unvoted debt margin of \$104,737 at June 30, 2014.

**Wellston City School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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**Note 21 - Set-Aside Calculations**

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

The School District's set aside for budget stabilization represents refunds received from the Bureau of Workers Compensation prior to April 10, 2001. Senate Bill 345 places conditions on the use of these dollars, including offsetting a budget deficit. The School District plans to use their set aside to offset any budget deficit the School District may experience in future years. There are no requirements for additional amounts to be set aside for budget stabilization. The School District has not adopted any additional guidelines for spending the money; therefore, the balance of \$56,688 is included in the unassigned fund balance of the General Fund.

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

	<u>Capital Improvements</u>
Set-Aside Balance as of as of June 30, 2013	\$0
Current Fiscal Year Set-Aside Requirement	255,387
Current Fiscal Year Offsets	(36,255)
Qualifying Expenditures	<u>(493,654)</u>
Totals	<u><u>(\$274,522)</u></u>
Set-Aside Balance as of June 30, 2014	<u><u>\$0</u></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**  
*Schedule of Federal Awards Expenditures*  
*For the Fiscal Year Ended June 30, 2014*

Federal Grantor/Pass Through Grantor/Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b><u>United States Department of Agriculture</u></b>						
<i>Passed through the Ohio Department of Education</i>						
Child Nutrition Cluster:						
School Breakfast Program	3L70	10.553	\$179,132	\$0	\$179,132	\$0
National School Lunch Program	3L60	10.555	451,756	38,017	451,756	38,017
Total Child Nutrition Cluster			630,888	38,017	630,888	38,017
<b>Total United States Department of Agriculture</b>			630,888	38,017	630,888	38,017
<b><u>United States Department of Education</u></b>						
<i>Passed through the Ohio Department of Education</i>						
Special Education Cluster:						
Special Education-Grants to States	3M20	84.027	423,353	0	422,810	0
Special Education-Preschool Grants	3C50	84.173	12,988	0	12,988	0
Total Special Education Cluster			436,341	0	435,798	0
Title I Grants to Local Educational Agencies	3M00	84.010	743,190	0	743,421	0
Twenty-First Century Community Learning Centers	3Y20	84.287	689,526	0	401,000	0
State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	3FD0	84.395	179,991	0	134,116	0
Rural and Low Income Title IV-B	3Y80	84.358	29,222	0	29,222	0
Improving Teacher Quality State Grants	3Y60	84.367	124,185	0	124,185	0
<b>Total United States Department of Education</b>			2,202,455	0	1,867,742	0
<b><u>United States Department of Health and Human Services</u></b>						
<i>Passed through the Ohio Department of Education</i>						
Maternal and Child Health Federal Consolidation Programs	3AXO	93.110	4,912	0	800	0
<b>Total United States Department of Health and Human Services</b>			4,912	0	800	0
<b>Total Federal Financial Assistance</b>			\$2,838,255	\$38,017	\$2,499,430	\$38,017

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, 2014*

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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***

Independent Auditor's Report

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Wellston City School District, Jackson County, Ohio (the School District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated December 29, 2014..

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School District's financial statements are free from 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*.

### **Purpose of this Report**

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



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

December 29, 2014

**Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance  
Required by OMB Circular A-133**

Independent Auditor's Report

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

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

We have audited Wellston City School District's (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 the School District's major federal program for the year ended June 30, 2014. The School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the School District's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

### **Report on Internal Control Over Compliance**

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



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

December 29, 2014

**Wellston City School District**  
*Schedule of Findings and Questioned Costs*  
*OMB Circular A-133 Section .505*  
*For the Fiscal Year Ended June 30, 2014*

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

<i>Financial Statements</i>		
Type of financial statement opinion:		Unmodified
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:		Unmodified
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):		Title I (CFDA #84.010)
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?		Yes

**Section II – Financial Statement Findings**

None

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

None

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# 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  
MARCH 19, 2015**