

Waverly City School District  
Pike County  
Single Audit  
For the Fiscal Year Ended June 30, 2016



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# Dave Yost • Auditor of State

Board of Education  
Waverly City School District  
1 Tiger Drive  
Waverly, OH 45690

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

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Waverly 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

May 8, 2017

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**Waverly City School District**  
**Pike County**  
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*For the Fiscal Year Ended June 30, 2016*

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**Independent Auditor's Report**

Board of Education  
Waverly City School District  
1 Tiger Drive  
Waverly, Ohio 45690

**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 Waverly City School District, Pike County, Ohio (the School District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements 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 Waverly City School District, Pike County, Ohio, as of June 30, 2016, and the respective changes in financial position and where applicable, cash flows thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with 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, the schedule of the School District's proportionate share of the net pension liability, and the schedule of School District contributions on pages 4 through 9, 54, and 55, respectively, 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 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 January 31, 2017 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, CITP  
President/Owner  
Millhuff-Stang, CPA, Inc.  
Portsmouth, Ohio

January 31, 2017

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

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

**Financial Highlights**

- In total, net position of governmental activities increased \$2,187,179 from the prior fiscal year.
- General revenues accounted for \$17,330,380 while program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$4,565,571. Total revenues for the School District were \$21,895,951. The School District also reported a special item of \$1,500,000 for legal settlement proceeds.
- The School District had \$21,208,772 in expenses related to governmental activities; only \$4,565,571 of these expenses were offset by program specific charges for services and sales, grants, and contributions. General revenues (primarily grants and entitlements and property taxes) were adequate enough to provide for these programs.

**Using this 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 School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The statement of net position and 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 major funds with all other nonmajor funds presented in total in one column.

**Reporting the School District as a Whole**

One of the most important questions asked about the School District is "How did we do financially during fiscal year 2016?" The statement of net position and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These statements include all assets, liabilities, and deferred inflows/outflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

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. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the School District's property tax base, current property tax laws in Ohio restricting revenue growth, required educational programs and other factors.

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

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In the statement of net position and the statement of activities, the School District has only one kind of activity:

Governmental activities – All of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, extracurricular activities, and food service operations.

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

#### **Fund Financial Statements**

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's major funds. The major funds for the School District are the general fund, the bond retirement debt service fund, and the permanent improvement capital projects fund.

*Governmental Funds* – Most 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 readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) 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's fiduciary funds consist of an agency fund and a private purpose trust fund. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The private purpose trust fund is used to account for college scholarship programs. The School District's agency fund accounts for those student activities which consist of a student body, student president, student treasurer and faculty advisor. Fiduciary funds use the accrual basis of accounting.

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

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**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 fiscal years 2016 and 2015:

Table 1  
Net Position

	2016	2015
Assets:		
Current and Other Assets	\$15,442,416	\$16,084,212
Capital Assets, Net	46,138,054	44,209,392
Total Assets	61,580,470	60,293,604
 Deferred Outflows of Resources	 2,495,711	 1,589,119
Liabilities:		
Current and Other Liabilities	2,304,390	2,919,396
Long-Term Liabilities	34,659,113	32,536,104
Total Liabilities	36,963,503	35,455,500
 Deferred Inflows of Resources	 5,690,384	 7,192,108
Net Position:		
Net Investment in Capital Assets	34,372,457	32,288,971
Restricted	2,452,653	4,134,397
Unrestricted (Deficit)	(15,402,816)	(17,188,253)
Total Net Position	\$21,422,294	\$19,235,115

Current and other assets decreased from the prior fiscal year. This was primarily due to decreases in intergovernmental receivable and settlement receivable that were offset by an increase in taxes receivable. Intergovernmental receivables decreased due to more timely requests of program funding. A settlement receivable was recognized in 2015 due to the settlement of litigation between the School District and a contractor for which substandard work was performed. Capital assets, net had a significant increase compared to the prior fiscal year. This resulted from current year additions being greater than current year depreciation and deletions. Deferred outflows of resources increased due to an increase in the proportionate share of the School District's portion of the state-wide net pension liability. Current and other liabilities decreased significantly. This is due to a significant decrease in intergovernmental payable due to a large payable recognized in the prior year for adjustments required by the State Foundation. Long-term liabilities increased due to an increase in net pension liability and the receipt of proceeds from a loan. This increase was partially offset by a decrease for principal payments. Deferred inflows of resources decreased due to the current year's amortization and due to other actuarially determined factors accounted for in the retirement systems' financial statements, upon which these amounts are based. Net investment in capital assets increased due to the School District's current fiscal year additions and decreases in debt balances for principal payments, which was partially offset by depreciation and deletions and proceeds from a new loan. Restricted net position decreased between years due to a decrease in restricted for debt service which included unspent proceeds in the prior year which were fully spent by the end of 2016. Unrestricted net position increased primarily due to the receipt of settlement funds.

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

Table 2 shows the changes in net position for fiscal years 2016 and 2015.

Table 2  
Change in Net Position

	2016	2015
Revenues		
Program Revenues:		
Charges for Services and Sales	\$1,290,279	\$1,187,713
Operating Grants and Contributions	3,246,961	3,687,875
Capital Grants and Contributions	28,331	59,748
Total Program Revenues	4,565,571	4,935,336
General Revenues:		
Property Taxes	4,121,280	4,303,846
Grants and Entitlements Not Restricted to Specific Programs	12,831,037	12,073,318
Proceeds from Sale of Assets	202	9,642
Investment Earnings	45,043	27,786
Miscellaneous	332,818	154,096
Total General Revenues	17,330,380	16,568,688
Total Revenues	21,895,951	21,504,024
Program Expenses:		
Instruction:		
Regular	8,124,121	7,191,306
Special	3,083,390	3,064,394
Vocational	140,634	283,667
Other	1,152,280	1,060,778
Support Services:		
Pupils	882,753	841,791
Instructional Staff	712,053	733,528
Board of Education	47,069	57,456
Administration	1,407,046	1,504,776
Fiscal	493,866	486,883
Operation and Maintenance of Plant	1,744,588	1,644,745
Pupil Transportation	1,152,591	1,125,604
Operation of Non-Instructional Services	1,222,096	1,176,648
Extracurricular Activities	656,579	578,736
Debt Service:		
Interest and Fiscal Charges	389,706	292,995
Issuance Costs	0	95,076
Total Expenses	21,208,772	20,138,383
Special Item	1,500,000	586,537
Change in Net Position	2,187,179	1,952,178
Net Position at Beginning of Year	19,235,115	17,282,937
Net Position at End of Year	\$21,422,294	\$19,235,115

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

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Program revenues, which are primarily represented by charges for tuition, fees, sales, and extracurricular activities, as well as restricted intergovernmental revenue, were \$4,565,571 for fiscal year 2016. Program revenues decreased between years due to a decrease in operating grants and contribution, which decreased due to a decrease in restricted funding from the State Foundation and do to a decrease in revenues in the Title VI-B and Title I federals programs.

As previously mentioned, general revenues were \$17,330,380 for fiscal year 2016. The majority of these revenues are in the form of grants and entitlements not restricted to specific programs and property taxes. These revenue sources were relatively consistent between years except that unrestricted grants and entitlements increased due to an increase in funding from the State Foundation.

Special items also increased this year due to additional funds received from the bonding company that represented the contractor required to pay the settlement which was recognized as a receivable in the prior year.

As should be expected, instruction costs represent the largest of the School District's expenses for fiscal year 2016. Expenses remained relatively consistent between years except that regular instruction increased due to increases in personnel costs.

The statement of activities shows the cost of program services and the charges for services, sales and grants and contributions offsetting those services. That is, it identifies the cost of these services supported by tax revenues and unrestricted grants and entitlements. The community and the State of Ohio, as a whole, provide the vast majority of resources for the School District's students.

### **The School District's Funds**

Information about the School District's major funds starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$21,800,342 and total expenditures of \$25,279,649.

The net change in fund balance for the fiscal year in the general fund was an increase of \$1,532,352. This increase was the result of the School District receiving a greater amount of foundation funding during this fiscal year than it had in the prior fiscal year and due to the receipt of settlement revenue. The School District had relatively consistent expenditures between years except that regular instruction increased as a result of an increase in personnel costs.

The bond retirement fund balance increased \$70,093, due to revenues in excess of expenditures.

The permanent improvement fund balance decreased \$999,742, due to due to significant capital outlay expenditures in excess of debt issuance proceeds and other revenues.

### **General Fund - Budget 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. During the course of fiscal year 2016, the School District revised its budget as it attempted to deal with unexpected changes in revenues and expenditures. The most significant budgeted fund is the general fund.

For the general fund, original budgeted revenues were \$18,284,271 and final budgeted revenues were \$19,409,515. This represents an increase in estimated revenues of \$1,125,244, which was due primarily to an increase in miscellaneous revenue for settlement revenues. Original budgeted expenditures were \$17,241,573 and final budgeted expenditures were \$19,256,539. This represents an increase in appropriations of \$2,014,966, which was due primarily to increases for personnel costs and debt obligation repayments.

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

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The School District's ending unobligated cash balance was \$1,619 above the final budgeted amount in the general fund.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal year 2016, the School District had \$46,138,054 invested in capital assets (net of accumulated depreciation). Additions to capital assets primarily consisted of construction in progress related to the athletic facility and remediation projects, in addition to various furniture and equipment. For more information on capital assets, refer to note 9 in the notes to the basic financial statements.

***Debt***

At June 30, 2016, the School District had \$4,398,581 in outstanding long-term general obligation debt, which includes serial bonds and related premium. The School District's long-term liabilities also include a loan, certificates of participation, capital leases, and compensated absences.

The School District's overall legal debt margin was \$12,310,442 with an unvoted debt margin of \$183,783, and an energy conservation debt margin of \$1,654,044 at June 30, 2016.

For more information on debt, refer to note 14 in the notes to the basic financial statements.

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information contact Claudia Zaler, Treasurer/Chief Financial Officer of Waverly City Board of Education, 1 Tiger Drive, Waverly, OH 45690 or e-mail at czaler@waverly.k12.oh.us.

**Waverly City School District**  
*Statement of Net Position*  
*As of June 30, 2016*

	Governmental Activities
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	\$10,492,437
Materials and Supplies Inventory	6,292
Intergovernmental Receivable	216,999
Property Taxes Receivable	4,726,688
Capital Assets:	
Land	721,374
Construction in Progress	1,575,073
Depreciable Capital Assets, net	43,841,607
<i>Total Assets</i>	61,580,470
<b>Deferred Outflows of Resources:</b>	
Deferred Charge on Refunding	122,695
Pension	2,373,016
<i>Total Deferred Outflows of Resources</i>	2,495,711
<b>Liabilities:</b>	
Accounts Payable	47,969
Accrued Wages and Benefits	1,311,941
Contracts Payable	592,626
Intergovernmental Payable	211,547
Undistributed Monies	202
Accrued Interest Payable	34,982
Retainage Payable	82,008
Claims Payable	23,115
Long-Term Liabilities:	
Due Within One Year	1,000,589
Due in More Than One Year	33,658,524
<i>Total Liabilities</i>	36,963,503
<b>Deferred Inflows of Resources:</b>	
Property Taxes not Levied to Finance Current Year Operations	3,826,830
Pension	1,863,554
<i>Total Deferred Inflows of Resources</i>	5,690,384
<b>Net Position:</b>	
Net Investment in Capital Assets	34,372,457
Restricted for Debt Service	1,336,546
Restricted for Capital Outlay	936,786
Restricted for Other Purposes	179,321
Unrestricted (Deficit)	(15,402,816)
<i>Total Net Position</i>	\$21,422,294

The notes to the basic financial statements are an integral part of this statement



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

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
Instruction:					
Regular	\$8,124,121	\$387,559	\$151,111	\$0	(\$7,585,451)
Special	3,083,390	102,963	2,127,549	0	(852,878)
Vocational	140,634	6,553	6,553	0	(127,528)
Other	1,152,280	61,620	0	0	(1,090,660)
Support Services:					
Pupils	882,753	51,412	1,675	0	(829,666)
Instructional Staff	712,053	21,582	50,773	0	(639,698)
Board of Education	47,069	2,517	0	0	(44,552)
Administration	1,407,046	80,176	51,054	0	(1,275,816)
Fiscal	493,866	22,834	0	0	(471,032)
Operation and Maintenance of Plant	1,744,588	80,012	0	28,331	(1,636,245)
Pupil Transportation	1,152,591	88,020	4,038	0	(1,060,533)
Operation of Non-Instructional Services	1,222,096	119,803	829,511	0	(272,782)
Extracurricular Activities	656,579	265,228	24,697	0	(366,654)
Debt Service:					
Interest and Fiscal Charges	389,706	0	0	0	(389,706)
<i>Total Governmental Activities</i>	<u>\$21,208,772</u>	<u>\$1,290,279</u>	<u>\$3,246,961</u>	<u>\$28,331</u>	(16,643,201)
<b>General Revenues:</b>					
Property Taxes Levied for:					
General Purposes					3,353,461
Debt Service					615,194
Permanent Improvements					95,196
Classroom Facilities Maintenance					57,429
Grants and Entitlements not					
Restricted for Specific Programs					12,831,037
Proceeds from Sale of Assets					202
Investment Earnings					45,043
Miscellaneous					332,818
<i>Total General Revenues</i>					17,330,380
Special Item-Settlement					1,500,000
<i>Change in Net Position</i>					2,187,179
<i>Net Position Beginning of Year</i>					19,235,115
<i>Net Position End of Year</i>					<u>\$21,422,294</u>

The notes to the basic financial statements are an integral part of this statement

**Waverly City School District**  
*Balance Sheet*  
*Governmental Funds*  
*As of June 30, 2016*

	General Fund	Bond Retirement Fund	Permanent Improvement Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>					
Equity in Pooled Cash and Cash Equivalents	\$7,657,147	\$1,112,367	\$14,343	\$1,295,893	\$10,079,750
Materials and Supplies Inventory	0	0	0	6,292	6,292
Interfund Receivable	67,125	0	0	0	67,125
Intergovernmental Receivable	61,507	0	0	155,492	216,999
Property Taxes Receivable	3,753,969	715,989	189,100	67,630	4,726,688
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	0	0	0	82,008	82,008
<i>Total Assets</i>	<u>\$11,539,748</u>	<u>\$1,828,356</u>	<u>\$203,443</u>	<u>\$1,607,315</u>	<u>\$15,178,862</u>
<b>Liabilities:</b>					
Accounts Payable	\$37,049	\$0	\$0	\$6,529	\$43,578
Accrued Wages and Benefits	1,151,176	0	0	160,765	1,311,941
Contracts Payable	218,294	0	209,209	165,123	592,626
Interfund Payable	0	0	0	67,125	67,125
Intergovernmental Payable	189,490	0	0	22,057	211,547
Undistributed Monies	202	0	0	0	202
Retainage Payable	0	0	0	82,008	82,008
<i>Total Liabilities</i>	1,596,211	0	209,209	503,607	2,309,027
<b>Deferred Inflows of Resources:</b>					
Property Taxes not Levied to Finance Current Year Operations	3,002,872	579,523	189,100	55,335	3,826,830
Unavailable Revenue	469,531	74,163	0	81,456	625,150
<i>Deferred Inflows of Resources</i>	3,472,403	653,686	189,100	136,791	4,451,980
<b>Fund Balances:</b>					
Nonspendable	3,867	0	0	6,292	10,159
Restricted	0	1,174,670	0	1,099,510	2,274,180
Committed	931,769	0	0	0	931,769
Assigned	333,496	0	0	0	333,496
Unassigned (Deficit)	5,202,002	0	(194,866)	(138,885)	4,868,251
<i>Total Fund (Deficit) Balances</i>	<u>6,471,134</u>	<u>1,174,670</u>	<u>(194,866)</u>	<u>966,917</u>	<u>8,417,855</u>
<i>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</i>	<u>\$11,539,748</u>	<u>\$1,828,356</u>	<u>\$203,443</u>	<u>\$1,607,315</u>	<u>\$15,178,862</u>

The notes to the basic financial statements are an integral part of this statement.

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

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**Total Governmental Fund Balances** \$8,417,855

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. 46,138,054

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.

Intergovernmental	136,286	
Taxes	488,864	
<b>Total</b>	<b>625,150</b>	<b>625,150</b>

The internal service fund is used by management to charge the costs of deductible reimbursements to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. 303,173

Deferred outflows of resources include deferred charges on refunding which do not provide current financial resources and therefore are not reported in the funds. 122,695

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (34,982)

The net pension liability is not due and payable in the current period. Therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:

Deferred Outflows-Pension	2,373,016	
Deferred Inflows-Pension	(1,863,554)	
Net Pension Liability	(22,186,157)	
<b>Total</b>	<b>(21,676,695)</b>	<b>(21,676,695)</b>

Long-term liabilities, including bonds and related liabilities, capital leases, loans, lease-purchase agreements, and the long-term portion of compensated absences, are not due and payable in the current period and therefore are not reported in the funds.

Bonds Payable	(4,230,000)	
Premium on Bond Issuance	(168,581)	
Energy Loan	(1,529,530)	
Certificates of Participation	(3,915,000)	
Premium on Certificates of Participation	(131,286)	
Lease-Purchase Agreement	(1,791,200)	
Compensated Absences	(707,359)	
<b>Total</b>	<b>(12,472,956)</b>	<b>(12,472,956)</b>

**Net Position of Governmental Activities** \$21,422,294

The notes to the basic financial statements are an integral part of this statement

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

	General Fund	Bond Retirement Fund	Permanent Improvement Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Property Taxes	\$3,315,863	\$611,642	\$95,196	\$57,103	\$4,079,804
Intergovernmental	13,848,735	108,491	13,219	2,012,102	15,982,547
Interest	44,906	0	87	2,706	47,699
Tuition and Fees	838,823	0	0	28,372	867,195
Rent	1,700	0	0	0	1,700
Extracurricular Activities	23,175	0	0	278,445	301,620
Gifts and Donations	13,539	0	25,675	27,981	67,195
Customer Sales and Services	0	0	0	119,764	119,764
Miscellaneous	318,866	0	6	13,946	332,818
<i>Total Revenues</i>	18,405,607	720,133	134,183	2,540,419	21,800,342
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular	6,927,839	0	0	167,077	7,094,916
Special	1,990,270	0	0	986,282	2,976,552
Vocational	127,687	0	0	0	127,687
Other	1,154,971	0	0	0	1,154,971
Support Services:					
Pupils	832,909	0	0	8,314	841,223
Instructional Staff	402,019	0	0	57,342	459,361
Board of Education	47,337	0	0	0	47,337
Administration	1,291,800	0	0	89,428	1,381,228
Fiscal	431,005	26,940	3,887	2,477	464,309
Operation and Maintenance of Plant	1,522,863	0	53,114	136,706	1,712,683
Pupil Transportation	1,108,784	0	0	29,832	1,138,616
Operation of Non-Instructional Services	10,214	0	0	1,079,864	1,090,078
Extracurricular Activities	320,035	0	0	261,539	581,574
Capital Outlay	583,167	0	2,578,436	954,653	4,116,256
Debt Service:					
Principal	1,201,110	445,000	50,000	0	1,696,110
Interest	195,357	178,100	23,291	0	396,748
<i>Total Expenditures</i>	18,147,367	650,040	2,708,728	3,773,514	25,279,649
<i>Excess of Revenues Over (Under) Expenditures</i>	258,240	70,093	(2,574,545)	(1,233,095)	(3,479,307)
<b>Other Financing Sources (Uses):</b>					
Transfers In	0	0	0	100,193	100,193
Other Notes Issued	0	0	1,574,803	0	1,574,803
Proceeds from Sale of Assets	202	0	0	0	202
Transfers Out	(100,193)	0	0	0	(100,193)
<i>Total Other Financing Sources (Uses)</i>	(99,991)	0	1,574,803	100,193	1,575,005
Special Item-Settlement	1,374,103	0	0	712,434	2,086,537
<i>Net Change in Fund Balances</i>	1,532,352	70,093	(999,742)	(420,468)	182,235
<i>Fund Balances at Beginning of Year</i>	4,938,782	1,104,577	804,876	1,387,385	8,235,620
<i>Fund (Deficit) Balances at End of Year</i>	<u>\$6,471,134</u>	<u>\$1,174,670</u>	<u>(\$194,866)</u>	<u>\$966,917</u>	<u>\$8,417,855</u>

The notes to the basic financial statements are an integral part of this statement.

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

**Net Change in Fund Balances - Total Governmental Funds** \$182,235

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 capital asset additions exceeded depreciation in the current period.

Capital Asset Additions	4,116,256	
Current Year Depreciation	(2,187,594)	
Total	1,928,662	1,928,662

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

Intergovernmental	53,931	
Legal Settlement	(586,537)	
Taxes	41,476	
Total	(491,130)	(491,130)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 23,755

Contractually required contributions are reported as expenditures in governmental funds. However, the statement of net position reports these amounts as deferred outflows. 1,393,416

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (1,030,730)

Long-term debt proceeds are other financing sources in the governmental funds but the issuance increases the long-term liabilities on the statement of net position.

Other Notes Issued (1,574,803)

Amortization of bond premiums and the deferred loss on the refunding of debt, are not reported in the funds, but are allocated as expenses over the life of the debt in the statement of activities.

Amortization of Deferred Charges on Refunding	(17,529)	
Amortization of Premiums	33,517	
Total	15,988	15,988

Repayments of long-term debt are expenditures in the governmental funds, but the repayments reduce liabilities in the statement of net position. In the current fiscal year, these amounts consist of:

Bond Principal Retirement	445,000	
Loan Principal Retirement	858,050	
Certificates of Participation Principal Retirement	285,000	
Capital Lease Payments	108,060	
Total	1,696,110	1,696,110

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. These activities consist of:

Decrease in Compensated Absences	52,622	
Increase in Accrued Interest	(8,946)	
Total	43,676	43,676

**Net Change in Net Position of Governmental Activities** \$2,187,179

The notes to the basic financial statements are an integral part of this statement

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

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget:
				Positive (Negative)
<b>Revenues:</b>				
Property Taxes	\$3,429,463	\$3,464,945	\$3,464,945	\$0
Intergovernmental	13,887,827	13,399,836	13,399,836	0
Interest	21,992	34,874	36,473	1,599
Tuition and Fees	797,590	838,823	838,823	0
Rent	12,668	1,700	1,700	0
Miscellaneous	134,731	1,688,811	1,688,811	0
<i>Total Revenues</i>	18,284,271	19,428,989	19,430,588	1,599
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	6,864,011	7,704,632	7,704,352	280
Special	1,966,567	2,073,134	2,073,134	0
Vocational	234,649	294,732	294,732	0
Other	1,021,676	1,156,269	1,156,269	0
Support Services:				
Pupils	795,508	843,738	843,738	0
Instructional Staff	409,140	405,215	405,215	0
Board of Education	49,467	50,470	50,470	0
Administration	1,375,114	1,320,330	1,320,330	0
Fiscal	434,801	439,898	439,898	0
Operation and Maintenance of Plant	1,617,224	1,600,839	1,600,840	(1)
Pupil Transportation	1,325,786	1,350,146	1,350,145	1
Central	780	540	800	(260)
Operation of Non-Instructional Services	9,526	10,895	10,895	0
Extracurricular Activities	325,001	313,450	313,450	0
Capital Outlay	17,542	317,335	317,335	0
Debt Service:				
Principal	653,698	1,199,350	1,199,350	0
Interest	141,083	195,040	195,040	0
<i>Total Expenditures</i>	17,241,573	19,276,013	19,275,993	20
<i>Excess of Revenues Over Expenditures</i>	1,042,698	152,976	154,595	1,619
<b>Other Financing Sources (Uses):</b>				
Advances In	57,680	66,260	66,260	0
Proceeds from Sale of Assets	9,642	202	202	0
Transfers Out	(50,000)	(100,193)	(100,193)	0
Advances Out	0	(75,839)	(75,839)	0
<i>Total Other Financing Sources (Uses)</i>	17,322	(109,570)	(109,570)	0
<i>Net Change in Fund Balance</i>	1,060,020	43,406	45,025	1,619
<i>Fund Balance at Beginning of Year</i>	6,078,471	6,078,471	6,078,471	0
<i>Prior Year Encumbrances Appropriated</i>	224,957	224,957	224,957	0
<i>Fund Balance at End of Year</i>	<u>\$7,363,448</u>	<u>\$6,346,834</u>	<u>\$6,348,453</u>	<u>\$1,619</u>

The notes to the basic financial statements are an integral part of this statement.

**Waverly City School District**  
*Statement of Fund Net Position*  
*Internal Service Fund*  
*As of June 30, 2016*

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	<u>Max 105 Fund</u>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$330,679</u>
<i>Total Assets</i>	330,679
<b>Liabilities:</b>	
Accounts Payable	4,391
Claims Payable	<u>23,115</u>
<i>Total Liabilities</i>	27,506
<b>Net Position:</b>	
Unrestricted	<u>303,173</u>
<i>Total Net Position</i>	<u><u>\$303,173</u></u>

The notes to the basic financial statements are an integral part of this statement.

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

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	<u>Max 105 Fund</u>
<b>Operating Revenues:</b>	
Charges for Services	<u>\$245,661</u>
<i>Total Operating Revenues</i>	245,661
<b>Operating Expenses:</b>	
Purchased Services	19,519
Claims	<u>202,387</u>
<i>Total Operating Expenses</i>	<u>221,906</u>
<i>Operating Income</i>	23,755
<i>Net Position Beginning of Year</i>	<u>279,418</u>
<i>Net Position End of Year</i>	<u><u>\$303,173</u></u>

The notes to the basic financial statements are an integral part of this statement.



**Waverly City School District**  
*Statement of Cash Flows*  
*Internal Service Fund*  
For the Fiscal Year Ended June 30, 2016

	Max 105 Fund
<b>Increase in Cash and Cash Equivalents:</b>	
<b>Cash Flows from Operating Activities:</b>	
Charges for Services	\$245,661
Purchased Services	(15,128)
Claims	(194,144)
<i>Net Increase in Cash and Cash Equivalents</i>	36,389
<i>Cash and Cash Equivalents at Beginning of Year</i>	294,290
<i>Cash and Cash Equivalents at End of Year</i>	\$330,679
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>	
Operating Income	\$23,755
<i>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</i>	
Increase in Accounts Payable	4,391
Increase in Claims Payable	8,243
<i>Net Cash Provided by Operating Activities</i>	\$36,389

The notes to the basic financial statements are an integral part of this statement.

**Waverly City School District**  
*Statement of Fiduciary Net Position*  
*Fiduciary Funds*  
*As of June 30, 2016*

	Private Purpose Trust Fund	Agency Fund
<b>Assets:</b>		
Equity in Pooled Cash and Cash Equivalents	\$17,353	\$45,581
<i>Total Assets</i>	\$17,353	\$45,581
<b>Liabilities:</b>		
Undistributed Monies		\$45,581
<i>Total Liabilities</i>		\$45,581
<b>Net Position:</b>		
Held in Trust for Scholarships	\$17,353	
<i>Total Net Position</i>	\$17,353	

The notes to the basic financial statements are an integral part of this statement.

**Waverly City School District**  
*Statement of Changes in Fiduciary Net Position*  
*Fiduciary Fund*  
*For the Fiscal Year Ended June 30, 2016*

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	<u>Private Purpose Trust Fund</u>
<b>Additions:</b>	
Gifts and Contributions	<u>\$2,000</u>
<i>Total Additions</i>	2,000
<b>Deductions:</b>	
Payments in Accordance with Trust Agreements	<u>4,500</u>
<i>Total Deductions</i>	<u>4,500</u>
<i>Change in Net Position</i>	(2,500)
<i>Net Position Beginning of Year</i>	<u>19,853</u>
<i>Net Position End of Year</i>	<u><u>\$17,353</u></u>

The notes to the basic financial statements are an integral part of this statement.

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

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

The Waverly City School District (the School District) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by State statute and federal guidelines.

The School District was established in 1969 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 119 square miles. It is located in Pike County, and includes all of the City of Waverly and portions of Pebble, Pee Pee, Jackson, and Franklin Townships. It is staffed by 79 non-certificated employees, 107 certificated full-time teaching personnel and 13 administrative employees who provide services to 1,944 students and other community members. The School District currently operates four instructional buildings, one athletic facility, and one garage.

Reporting Entity

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

*Parochial School* – Within the School District boundaries, Pike Christian Academy is operated as a private school. Current State legislation provides funding to this parochial school. Monies are received and disbursed on behalf of the parochial school by the Treasurer of the School District, as directed by the parochial school. This activity is reflected in a special revenue fund and as part of governmental activities 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 a 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 four jointly governed organizations and one insurance purchasing pool. These organizations are:

- South Central Ohio Computer Association Regional Council of Governments (SCOCA)
- Pike County Joint Vocational School District
- Coalition of Rural and Appalachian Schools
- Ohio SchoolComp Workers' Compensation Group Rating Plan.

These organizations are presented in notes 17 and 18 to the basic financial statements.

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

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**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.

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 fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The government-wide statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type activities. However, the School District 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 are 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 rather than reporting by type. 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.

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. All funds of the School District are divided into three categories: governmental, proprietary, and fiduciary.

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

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*Governmental Funds*

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

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

*Bond Retirement Fund* - The bond retirement fund is used to account for and report property taxes restricted for the payment of general obligation bond principal and interest and certain other long-term obligations when the School District is obligated for the payment.

*Permanent Improvement Fund* - The permanent improvement fund is used to account for all transactions related to acquiring, constructing, or improving of such permanent improvements. This fund received certificates of participation proceeds for use in capital improvements.

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

*Proprietary Fund*

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 not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary funds are a private purpose trust fund and an agency fund. The private purpose trust fund accounts for college scholarship programs for students. The School District's agency fund accounts for those student activities which consist of a student body, student president, student treasurer and faculty advisor.

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

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Measurement Focus

*Government-wide Financial Statements*

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and deferred outflows of resources and liabilities and deferred inflows of resources associated with the operation of the School District are included on the statement of net position. The statement of activities presents increases (e.g., revenues) and decreases (e.g., 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 deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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.

The private purpose trust fund is reported using the flow of economic resources measurement focus.

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 and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred outflows and inflows 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. "Measurable" means that the amount of the transaction can be determined, and "available" means that the resources are collectible 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 60 days of fiscal year-end.

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

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Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available for advance, grants, and miscellaneous.

*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, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The School District reports in the government-wide statement of net position deferred outflows of resources for a deferred charge on refunding and amounts related to pensions. 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 life of the refunded or refunding debt. Amounts related to pensions will be further discussed in note 10.

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. The School District reports deferred inflows of resources for property taxes, unavailable revenue, and pensions. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2017 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental funds balance sheet. 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 and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Amounts related to pensions will be further discussed in note 10.

*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 the governmental funds.



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

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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, all of 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 sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of budgetary control has been established by the Board of Education at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education. The Treasurer has been authorized to allocate appropriations to the function and object level without resolution by the Board of Education.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that were in effect at the time the final appropriations were passed. The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues. 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, including all supplemental appropriations. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board of Education during the fiscal year, including all supplemental appropriations.

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 the School District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

During fiscal year 2016, investments were limited to money market accounts, STAR Ohio, certificates of deposit, and U.S. Government Agency securities. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. 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 on June 30, 2016.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund, permanent improvement fund, and nonmajor governmental funds during fiscal year 2016 amounted to \$44,906, \$87, and \$2,706, respectively.

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 on the financial statements as cash equivalents.

Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories consist of consumable supplies.

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

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Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors or laws of other governments, or imposed by law through constitutional provisions. Restricted assets in the nonmajor Ohio School Facilities Commission fund are amounts held for retainage.

Capital Assets

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets usually result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost, which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$5,000. 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 capitalized.

All reported capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	5 - 20 years
Buildings and Improvements	10 - 50 years
Furniture and Equipment	5 - 20 years
Vehicles	10 years
Books and Educational Media	5 years

Interfund Balances

On fund financial statements, outstanding interfund loans are reported as "interfund receivable/payable". Interfund balances are eliminated in the statement of net position.

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 School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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 after 20 years of current service with the School District.

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

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On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent that payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account “matured compensated absences payable” in the fund from which the employees will be paid. The School District had no matured compensated absences payable as of June 30, 2016. The entire compensated absences liability is reported on the government-wide financial statements.

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 governmental funds. However, compensated absences and net pension liability 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 in the current fiscal year. Bonds, loans, and capital leases that will be paid from governmental funds are recognized as an expenditure and liability on the governmental fund financial statements when due.

Bond Premiums and Compound Interest on Capital Appreciation Bonds

In the government-wide financial statements, bond premiums are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. Capital appreciation bonds are accreted each fiscal year for the compounded interest accrued during the fiscal year. Bond premiums and the compounded interest on the capital appreciation bonds are presented as an addition to the face amount of the bonds payable.

On the governmental fund financial statements, bond premiums are recognized in the period when the debt is issued. Accretion on the capital appreciation bonds is not reported. Interest on capital appreciation bonds is recorded as an expenditure when the debt becomes due.

Deferred Charge on Refunding

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

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 the 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” criterion 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 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.

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

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

*Assigned* – Amounts in the assigned fund balance classification are intended to be used by the 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. These amounts are assigned by the Board of Education. 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. State statute authorizes the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

*Unassigned* – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit fund balance.

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 amounts in any of the unrestricted fund balance classifications could be used.

#### Net Position

Net Position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes includes federal and State grants restricted to expenditures for specified purposes.

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

#### Internal Activity

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Interfund payments for services provided and used are not 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 non-operating revenues/expenses in the proprietary fund. Transfers within the governmental activities are eliminated on the government-wide financial statements.

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

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Estimates

The preparation of 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.

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. During fiscal year 2016, the School District reached a legal settlement with Triad Inc. over unsatisfactory work related to the Ohio School Facilities Commission project performed in prior years. The settlement resulted in the agreement of a \$586,537 payment to the School District. This amount was recorded as a settlement receivable and unavailable revenue on the fund financial statements and as a special item on the government-wide financial statements in the 2015 financial statements. These funds were received by the School District in November 2015. In addition, in March 2016, the School District also received \$1,500,000 from the contractor's bonding company to settle the claim. This amount was recorded as a special item on the fund and government-wide financial statements.

Pensions

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

**Note 3 – Budgetary Basis of Accounting**

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The statement of revenues, expenditures and changes in fund balance – budget and actual (budgetary basis) is presented for the general fund on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are:

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 as restricted, committed or assigned fund balance (GAAP basis).
4. Advances are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
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 general accepted accounting principles and were reported with the general fund (GAAP basis).

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

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the general fund.

Net Change in Fund Balance	
GAAP Basis	\$1,532,352
Adjustments:	
Revenue Accruals	(308,250)
Expenditure Accruals	63,710
Encumbrances	(1,244,879)
Advances	(9,579)
Perspective Differences	11,671
Budget Basis	\$45,025

**Note 4 – 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 the governmental funds. The constraints placed on fund balance for the major governmental funds and nonmajor governmental funds are presented below:

Fund Balances	General	Bond Retirement	Permanent Improvement	Nonmajor Governmental Funds	Total Governmental Funds
<i>Nonspendable</i>					
Unclaimed Monies	\$3,867	\$0	\$0	\$0	\$3,867
Inventory	0	0	0	6,292	6,292
Total	3,867	0	0	6,292	10,159
<i>Restricted for</i>					
Debt Payments	0	1,174,670	0	0	1,174,670
Auxiliary Programs	0	0	0	4,647	4,647
Miscellaneous Federal Grants	0	0	0	261	261
District Managed Activities	0	0	0	69,942	69,942
Capital Maintenance	0	0	0	87,874	87,874
Capital Improvements	0	0	0	936,786	936,786
Total	0	1,174,670	0	1,099,510	2,274,180
<i>Committed for</i>					
Underground Storage	11,000	0	0	0	11,000
Purchases on Order	920,769	0	0	0	920,769
Total	931,769	0	0	0	931,769
<i>Assigned for</i>					
Purchases on Order	292,640	0	0	0	292,640
Public School Support	40,856	0	0	0	40,856
Total	333,496	0	0	0	333,496
<i>Unassigned (Deficit)</i>	5,202,002	0	(194,866)	(138,885)	4,868,251
<i>Total</i>	\$6,471,134	\$1,174,670	(\$194,866)	\$966,917	\$8,417,855

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

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**Note 5 – Accountability**

At June 30, 2016, the permanent improvement major capital projects fund and the food service, Title VI-B, and Title I nonmajor special revenue fund had deficit fund balances of \$194,866, \$82,051, \$14,679, and \$35,863, respectively. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**Note 6 – Deposits and Investments**

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
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
7. The State Treasurer's investment pool (STAROhio); 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 is the risk that, in the event of a bank failure, the School District's deposits may not be returned. All deposits are collateralized with eligible securities. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at federal reserve banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the federal reserve bank in the name of the School District. The School District's policy does not address this risk beyond the requirements of the Ohio Revised Code.

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

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At June 30, 2016, the bank balance of all School District deposits was \$8,240,635. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2016, \$2,827,864 of the School District's bank balance was covered by Federal Deposit Insurance. The remaining \$5,412,771 was collateralized with securities held by the School District or its agent in the School District's name.

*Investments* – As of June 30, 2016, the School District had the following investments and maturities:

Investment Type	Fair Value	Maturity		S&P Credit Rating	% of Portfolio
		< 1 Year	3-5 Years		
STAR Ohio	\$5	\$5	\$0	AAAm	0%
Money Market	21,058	21,058	0	AAAm	1%
FNMA	1,100,219	0	1,100,219	AA+	46%
FHLMC	850,767	0	850,767	AA+	36%
FHLB	401,196	0	401,196	AA+	17%
Total	\$2,373,245	\$21,063	\$2,352,182		100%

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the School District's recurring fair value measurements as of June 30, 2016. As discussed further in Note 2, STAR Ohio is reported at its share price. All other investments of the School District are valued using quoted market prices (Level 1 inputs).

**Interest Rate Risk** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the School District manages its exposure to declines in fair values by keeping the portfolio sufficiently liquid to enable the School District to meet all operating requirements.

**Credit Risk** – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The School District limits its investments to STAR Ohio, money market funds, and U.S. Government agency securities as described in Ohio Revised Code Section 135.143A(2).

**Concentration of Credit Risk** – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The School District's investment policy allows investments in eligible securities as described in the Ohio Revised Code.

**Custodial Credit Risk** – Custodial credit risk is the risk that, in the event of the 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 does not have a policy for custodial credit risk. All of the School District's investments are either insured and registered in the name of the School District or at least registered in the name of the School District.

**Note 7 – 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.



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

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Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2016 represents collections of calendar year 2015 taxes. Public utility real and tangible personal property taxes received in calendar year 2016 became a lien December 31, 2014, were levied after April 1, 2015, and are collected in calendar year 2016 with real property taxes. Public utility real property is assessed at 35 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 Pike County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 2016, are available to finance fiscal year 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

The amounts available as an advance at June 30, 2016 were \$343,073 in the general fund, \$62,303 in the bond retirement fund, and \$5,618 in the other governmental funds.

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 deferred inflows of resources – unavailable revenue.

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

	2015 Second-Half Collections		2016 First-Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$166,473,070	91.72%	\$168,992,220	91.95%
Public Utility	15,021,510	8.28%	14,790,470	8.05%
Total Assessed Value	\$181,494,580	100.00%	\$183,782,690	100.00%
Tax Rate per \$1,000 of Assessed Valuation	\$32.00		\$32.00	

**Note 8 – Receivables**

Receivables at June 30, 2016, consisted of property taxes, intergovernmental grants and interfund. 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 for delinquent property taxes, are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquents that will not be collected within one year. The intergovernmental receivables are as follows:

**Waverly City School District**  
*Notes to the Basic Financial Statements*  
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<i>Major Fund:</i>	
General	\$61,507
<i>Nonmajor Funds:</i>	
Title I	82,787
Title I, School Improvement, Sub A	677
Special Education	56,641
Improving Teacher Quality	15,387
Total Nonmajor Funds	<u>155,492</u>
Total All Funds	<u>\$216,999</u>

**Note 9 – Capital Assets**

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

	Ending Balance 6/30/15	Additions	Deletions	Ending Balance 6/30/16
<i>Governmental Activities</i>				
Capital Assets Not Being Depreciated				
Land	\$721,374	\$0	\$0	\$721,374
Construction in Progress	10,100,711	3,762,934	(12,288,572)	1,575,073
Total Capital Assets Not Being Depreciated	<u>10,822,085</u>	<u>3,762,934</u>	<u>(12,288,572)</u>	<u>2,296,447</u>
Capital Assets Being Depreciated				
Land Improvements	3,696,743	0	0	3,696,743
Buildings and Improvements	47,111,127	12,369,504	0	59,480,631
Furniture and Equipment	2,356,729	175,213	0	2,531,942
Vehicles	1,693,872	97,177	0	1,791,049
Books and Educational Media	936,075	0	0	936,075
Total Capital Assets Being Depreciated	<u>55,794,546</u>	<u>12,641,894</u>	<u>0</u>	<u>68,436,440</u>
Less Accumulated Depreciation				
Land Improvements	(2,128,021)	(165,495)	0	(2,293,516)
Buildings and Improvements	(16,440,606)	(1,790,321)	0	(18,230,927)
Furniture and Equipment	(1,472,649)	(111,027)	0	(1,583,676)
Vehicles	(1,429,888)	(120,751)	0	(1,550,639)
Books and Educational Media	(936,075)	0	0	(936,075)
Total Accumulated Depreciation	<u>(22,407,239)</u>	<u>(2,187,594)</u>	<u>0</u>	<u>(24,594,833)</u>
Total Capital Assets Being Depreciated, Net	<u>33,387,307</u>	<u>10,454,300</u>	<u>0</u>	<u>43,841,607</u>
Governmental Activities Capital Assets, Net	<u>\$44,209,392</u>	<u>\$14,217,234</u>	<u>(\$12,288,572)</u>	<u>\$46,138,054</u>

**Waverly City School District**  
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Depreciation expense was charged to governmental functions as follows:

<i>Instruction:</i>	
Regular	\$1,199,789
Special	169,358
Vocational	18,092
<i>Support Services:</i>	
Pupils	83,931
Instructional Staff	260,562
Administration	111,768
Fiscal	33,572
Operation and Maintenance of Plant	39,103
Pupil Transportation	42,132
Operation of Non-Instructional Services	138,229
Extracurricular Activities	91,058
Total Depreciation Expense	\$2,187,594

**Note 10 – Defined Benefit Pension Plans**

Net Pension Liability

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

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

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

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

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

**Waverly City School District**  
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Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit
* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.		

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. None of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The School District’s contractually required contribution to SERS was \$440,352 for fiscal year 2016. Of this amount, \$0 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS’ fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://www.strsoh.org).

**Waverly City School District**  
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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. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement increased effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014 and July 1, 2015, and will increase one percent on July 1, 2016 when it reaches 14 percent. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$953,064 for fiscal year 2016. Of this amount \$157,668 is reported as an intergovernmental payable.

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

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

	SERS	STRS	Total
Proportionate Share of the Net			
Pension Liability	\$4,066,113	\$18,120,044	\$22,186,157
Proportion of the Net Pension			
Liability	0.0712591%	0.06556426%	
Pension Expense	\$282,495	\$748,235	\$1,030,730

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

	SERS	STRS	Total
<i>Deferred Outflows of Resources</i>			
Differences between expected and actual experience	\$64,823	\$828,961	\$893,784
Changes in proportion and differences between School District contributions and proportionate share of contributions	85,816	0	85,816
School District contributions subsequent to the measurement date	440,352	953,064	1,393,416
<b>Total Deferred Outflows of Resources</b>	<b>\$590,991</b>	<b>\$1,782,025</b>	<b>\$2,373,016</b>
<i>Deferred Inflows of Resources</i>			
Net difference between projected and actual earnings on pension plan investments	\$122,286	\$1,359,230	\$1,481,516
Difference between School District contributions and proportionate share of contributions	0	382,038	382,038
<b>Total Deferred Inflows of Resources</b>	<b>\$122,286</b>	<b>\$1,741,268</b>	<b>\$1,863,554</b>

\$1,393,416 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

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	SERS	STRS	Total
Fiscal Year Ending June 30:			
2017	(\$17,582)	(\$407,305)	(\$424,887)
2018	(17,582)	(407,305)	(424,887)
2019	(17,582)	(407,305)	(424,887)
2020	81,099	309,608	390,707
<b>Total</b>	<b>\$28,353</b>	<b>(\$912,307)</b>	<b>(\$883,954)</b>

Actuarial Assumptions - SERS

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

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

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

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

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

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

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

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

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

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

	Current		
	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$5,638,238	\$4,066,113	\$2,742,255

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

Actuarial Assumptions - STRS

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



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

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

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

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

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

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

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

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	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$25,170,108	\$18,120,044	\$12,158,163

**Note 11 – Postemployment Benefits**

School Employees Retirement System

In addition to a cost-sharing, multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers a post-employment benefit plan.

Health Care Plan

Ohio Revised Code 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The Ohio Revised Code provides the statutory authority to fund SERS' post-employment benefits through employer contributions. Active members do not make contributions to the post-employment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund to be used to subsidize the cost of health care coverage. For the year ended June 30, 2016, the health care allocations was 0 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. By statute no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the minimum compensation level was established at \$23,000. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contributions assigned to health care for the years ending June 30, 2016, 2015, and 2014 were \$0, \$62,445, and \$61,612.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending upon the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial report of SERS' Health Care plan is included in its comprehensive annual financial report. The report can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under employers/audit resources.

State Teachers Retirement System

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan, a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and Defined Contribution Plan.

**Waverly City School District**  
*Notes to the Basic Financial Statements*  
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Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums.

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent comprehensive annual financial report by visiting [www.strsoh.org](http://www.strsoh.org) or by requesting a copy by calling toll-free 1-888-227-7877.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 0 percent of covered payroll was allocated to post-employment health care for the year ended June 30, 2016. For the years ended June 30, 2015 and 2014, 1 percent of covered payroll was allocated to post-employment health care. The 14 percent employer contribution rate is the maximum rate established under Ohio law. For the School District, these amounts equaled \$0, \$0, and \$68,207, for fiscal years 2016, 2015 and 2014, respectively.

## **Note 12 – Employee Benefits**

### Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees and administrators earn 10 to 25 days of vacation per fiscal year, depending upon length of service. 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. Sick leave may be accumulated up to a maximum of 220 days for all certified and classified personnel. Upon retirement, payment is made to certified employees for 30 percent of accrued but unused sick leave. Classified employees receive 40 percent of accrued but unused sick leave up to a maximum of 55 days. Classified employees with a sick leave balance over 75 days will also receive an amount equal to 10 percent of accumulated sick leave days over 75 with a maximum of 69.5 days in total severance.

### Insurance Benefits

Medical/surgical and prescription drug insurance is offered to employees through Medical Mutual of Ohio. The employees share the cost of the monthly premium with the Board. The premium varies with the employee, depending on the terms of the union contract. Dental insurance is provided by Delta Dental. The School District provides life insurance and accidental death and dismemberment insurance to employees through Metropolitan Educational Council.

### Deferred Compensation

School District employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

**Waverly City School District**  
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**Note 13 – Leases – Lessee Disclosure**

In prior years, the School District entered into capitalized leases for equipment. The assets obtained under these leases were capitalized in the amount of \$36,406. During fiscal year 2006, the School District entered into a lease-purchase agreement for the locally funded portion of the new School District buildings which was primarily related to the construction of an auditorium. The School District is leasing the project from Central Ohio Loan Services, Inc. Central Ohio Loan Services, Inc. will retain title to the project during the lease term. As part of the lease agreement, Central Ohio Loan Services, Inc. deposited \$1,650,000 into the School District's bank account. The School District had previously paid all contractors as work progressed, and the proceeds of the lease were used to replenish these monies. Capital assets acquired by lease were initially capitalized in the amount of \$1,650,000 which is equal to the present value of the minimum lease payments at the time of acquisition.

During fiscal year 2014, the School District entered into a lease-purchase agreement to refinance the 2006 lease-purchase agreement and to provide additional funds to finance construction projects. A corresponding liability was recorded on the statement of net position for governmental activities. Principal payments in fiscal year 2016 totaled \$108,060. Payments were paid from the general fund.

Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2016.

Fiscal Year Ending June 30,	
2017	\$175,479
2018	175,460
2019	175,496
2020	175,722
2021	175,499
2022-2026	877,623
2027-2029	526,552
Total	2,281,831
Less: Amount Representing Interest	(490,631)
Present Value of Net Minimum Lease Payments	\$1,791,200

**Waverly City School District**  
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**Note 14 – Long-Term Obligations**

The changes in the School District’s long-term obligations during fiscal year 2016 were as follows:

	Amount Outstanding 6/30/15	Additions	Deductions	Amount Outstanding 6/30/16	Due Within One Year
<i>Governmental Activities</i>					
2006 Refunding Bonds					
Serial Bonds 4%	\$4,675,000	\$0	(\$445,000)	\$4,230,000	\$460,000
Premium on Debt Issue	192,664	0	(24,083)	168,581	0
2013 Hardship Loan	812,777	0	(812,777)	0	0
2015 ODSA Energy Loan	0	1,574,803	(45,273)	1,529,530	91,908
2015 Certificates of Participation	4,200,000	0	(285,000)	3,915,000	235,000
Premium on 2015 Certificates of Participation	140,720	0	(9,434)	131,286	0
<b>Total</b>	<b>10,021,161</b>	<b>1,574,803</b>	<b>(1,621,567)</b>	<b>9,974,397</b>	<b>786,908</b>
Compensated Absences	759,981	360,854	(413,476)	707,359	213,681
Capital Leases	1,899,260	0	(108,060)	1,791,200	0
Net Pension Liability	19,855,702	2,330,455	0	22,186,157	0
<b>Total Governmental Activities     Long-Term Obligations</b>	<b>\$32,536,104</b>	<b>\$4,266,112</b>	<b>(\$2,143,103)</b>	<b>\$34,659,113</b>	<b>\$1,000,589</b>

2006 Classroom Facilities Refunding Bonds

On December 15, 2006, the School District issued \$5,739,992 in voted general obligation bonds for the purpose of advance refunding a portion of the 2001 Classroom Facilities General Obligation Bonds. The bonds were issued for a 17-year period, with final maturity in December 2023. The bonds will be retired from the bond retirement fund.

The serial bonds maturing December 1, 2017 and thereafter are subject to optional redemption, in whole or in part on any date in any order of maturity on or after December 1, 2016, at par, which is 100 percent of the face value of the bonds.

2013 Hardship Loan

During fiscal year 2013, the School District received a \$1,354,629 hardship loan through the Ohio School Facilities Commission to help fund the remediation project. The loan is an interest free loan and was paid in fully during fiscal year 2016.

2015 ODSA Energy Note

In April 2015, the School District entered into a promissory note with the Ohio Development Services Agency for funds to complete an energy project. The note was issued in the amount of \$1,574,803, and the funds were drawn during the fiscal year. The loan carries a 1.75 percent interest rate for a term of 15 years. The loan will be retired from the general fund.

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

2015 Certificates of Participation

In May 2015, the School District issued certificates of participation in the amount of \$4,200,000 for the purpose of repaying \$2,500,000 in short-term notes (see note 15) and to provide additional funding for the school facilities improvement project. The certificates hold interest rates ranging from 2 percent to 4 percent and has a final maturity of December 2029. The certificates will be retired from the bond retirement fund.

Compensated absences will be paid from the general, food service, and title VI-B funds. Capital lease obligations will be paid from the general fund. The School District pays obligations related to employee compensation from the fund benefitting from their service.

The School District's overall legal debt margin was \$12,310,442 with an unvoted debt margin of \$183,783, and an energy conservation debt margin of \$1,654,044 at June 30, 2016.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2016, are as follows:

Fiscal Year Ending June 30,	2006 Classroom Facilities Refunding Bonds		2015 Certificates of Participation		2015 ODSA Energy Loan	
	Serial Bonds Principal	Serial Bonds Interest	Principal	Interest	Principal	Interest
2017	\$460,000	\$160,000	\$235,000	\$121,326	\$91,908	\$26,366
2018	480,000	141,200	240,000	116,576	93,755	24,750
2019	495,000	121,700	245,000	111,726	95,639	23,101
2020	515,000	101,500	250,000	106,151	97,562	21,426
2021	535,000	80,500	255,000	99,838	99,523	19,703
2022-2026	1,745,000	106,500	1,390,000	380,075	528,438	71,545
2027-2031	0	0	1,300,000	106,600	522,705	23,168
Total	\$4,230,000	\$711,400	\$3,915,000	\$1,042,292	\$1,529,530	\$210,059

**Note 15 – Risk Management**

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. The School District purchases commercial coverage to address these risks.

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

Workers' Compensation

For fiscal year 2016, the School District participated in the Ohio SchoolComp Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (note 18). The intent of the GRP is to achieve the benefit of a reduce premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants 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 participants that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP. Each year, the School District pays an enrollment fee to the GRP to cover the costs of administering the program.

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

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Self-Insurance

The School District manages the deductible portion of employee health benefits on a self-insured basis. The employee health benefit plan provides this coverage through Patrick Benefit Administrators, the third party administrator of the program, which reviews and pays the claims. Patrick Benefit Administrators charges the School District an annual fee of \$750, with a monthly administration fee of \$7.50 per employee. The claims liability of \$23,115 reported in the internal service fund at June 30, 2016, is estimated by the third-party administrator and is based on the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claims adjustments expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes to the internal service fund's claims liability amounts in the past two fiscal years follows:

	Balance at Beginning of Fiscal Year	Current Year Claims	Claim Payments	Balance at End of Fiscal Year
2016	\$14,872	\$202,387	\$194,144	\$23,115
2015	32,115	151,166	168,409	14,872

**Note 16 – Interfund Activity**

As of June 30, 2016, interfund receivables and payables that resulted from interfund transactions were as follows:

	Receivables	Payables
<i>Major Fund:</i>		
General	\$67,125	\$0
<i>Nonmajor Funds:</i>		
Food Services	0	30,345
Athletics	0	20,609
Special Education	0	91
Title I, School Improvement, Sub A	0	54
Title I	0	15,844
Improving Teacher Quality	0	182
Total Nonmajor Funds	0	67,125
Total	\$67,125	\$67,125

General fund advances are made to move unrestricted balances to support programs and projects accounted for in other funds. Advancing monies to other funds is necessary due to timing differences in the receiving of grant monies. When the monies are received, the grant fund will use these restricted monies to reimburse the general fund for the initial advance.

	Transfers In	Transfers Out
<i>Major Fund:</i>		
General	\$0	\$100,193
<i>Nonmajor Fund:</i>		
Food Service	91,179	0
Local Grants	4,724	0
Athletics	4,290	0
Total Nonmajor Fund	100,193	0
Total	\$100,193	\$100,193

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

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Transfers are made to move unrestricted balances to support programs and projects accounted for in other funds.

**Note 17 – Jointly Governed Organizations**

South Central Ohio Computer Association Regional Council of Governments (SCOCA)

The School District is a participant in the South Central Ohio Computer Association Council of Governments (SCOCA COG) which is an information technology center. SCOCA COG is a council of governments providing information technology services to 59 public education entities, 60 non-public education entities, 2 private schools, and multiple public libraries from 23 Ohio counties. The organization was 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. The governing board of SCOCA COG consists of two representatives from each county elected by majority vote of all charter member school districts within each county, two treasurers elected by majority vote of all charter member school districts, and one representative from the fiscal agent. The School District paid SCOCA COG \$218,477 for services provided during the year. Financial information for SCOCA COG can be obtained from their fiscal office located at Pike County Career Technology Center, P.O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

Pike County Joint Vocational School

The Pike County Joint Vocational School District (Vocational School District) is a distinct political subdivision of the State of Ohio operated under the direction of a Board which consists of four of the 11 members of the Ross-Pike County Educational Service Center's Board of Education and one representative from the Waverly City Schools Board of Education, which possesses its own budgeting and taxing authority. The Vocational School District Board exercises total control over the operations of the Vocational School District including budget, appropriating, contracting and designating management. Each school district's degree of control is limited to its representation on the Board. To obtain financial information write to the Pike County Joint Vocational School District, Tonya Cooper, who serves as Treasurer, at P.O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools (the Coalition) is a jointly governed organization of over 100 school districts in southeastern Ohio. The Coalition is operated by a board which is composed of 14 members. The board members are composed of one superintendent from each county elected by the school districts within that county.

The Coalition provides various services for school district administrative personnel; gathers data regarding conditions of education 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 Board exercises total control over the operations of the Coalition including budget, appropriating, contracting and designating management. Each School District's degree of control is limited to its representation on the Board. The School District paid \$325 to the Coalition for services provided during the fiscal year.

**Note 18 – Insurance Purchasing Pool**

Ohio SchoolComp Workers' Compensation Group Rating Plan

The School District participates in the Ohio SchoolComp Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The Ohio School Board Association (OSBA) and the Ohio Association of School Business Officials (OASBO) co-sponsor the GRP. The Executive Directors of the OSBA and the OASBO, or their designees, serve as coordinators of the program.



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

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**Note 19 – 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 or 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 fiscal years.

The School District is no longer required to set aside funds in the budget reserve, with the exception of monies received from the Bureau of Workers’ Compensation prior to April 10, 2001, which must be retained for budget stabilization or spent for specified purposes. The following cash-basis information identifies the change in the fiscal year-end set-aside amounts. Disclosure of this information is required by State statute.

	Capital Improvements	Budget Stabilization
Set-Aside Balance as of June 30, 2015	\$0	\$57,076
Current Fiscal Year Set-Aside Requirement	337,283	0
Current Fiscal Year Off-Sets	(195,850)	0
Current Fiscal Year Qualifying Expenditures	(141,433)	(57,076)
Set-Aside Balance as of June 30, 2016	\$0	\$0
Required Set-Aside Balance Carried Forward to Fiscal Year 2017	\$0	\$0

Amounts of offsets and qualifying disbursements presented in the table for capital improvements were limited to those necessary to reduce the fiscal year-end balance to zero. Although the School District may have had additional offsets and qualifying disbursements for capital improvements during the fiscal year, this extra amount may not be used to reduce the set-aside requirements of future fiscal years.

**Note 20 – Contingencies**

Grants

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2016, if applicable, cannot be determined at this time.

State Foundation Funding

School District funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School District, which can extend past the fiscal year. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 or 2016 Foundation funding for the school district. Therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the School District. As of the date of this report, the School District has recognized a payable to ODE in the amount of \$1,714.

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

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Litigation

The School District is not party to any legal proceedings against the School District.

**Note 21 – Significant Commitments**

Contractual Commitments

The School District has the following significant outstanding contracts as of June 30, 2016:

	Contract Amount	Amount Expended	Balance at 6/30/16
Sportscapes-Turf/Stadium Project	\$1,275,072	\$912,349	\$362,723
Sportscapes-Playground Remediation	300,000	194,245	105,755

Encumbrances

Encumbrances are commitments related to unperformed contracts for goods and services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At June 30, 2016, the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

<i>Major Funds:</i>	
General	\$1,246,741
Permanent Improvement	8,446
Construction	252,535
<i>Nonmajor Funds:</i>	
Classroom Facilities Maintenance	15,437
Athletics	35,394
Auxiliary	5,811
Title I, School Improvement, Sub A	221
Title I	11,529
Total Nonmajor Funds	68,392
Total All Funds	\$1,576,114

**Note 22 – Subsequent Events**

In November 2016, the School District \$3,770,000 in classroom facilities refunding bonds for the purpose of refunding the 2006 refunding bond issue.

META Solutions is a computer consortium that was the result of a merger between Tri-Rivers Educational Computer Association (TRECA) and the Metropolitan Educational Council (MEC) in February 2015. Metropolitan Dayton Educational Cooperative Association (MDECA) and Southeastern Ohio Voluntary Education Cooperative (SEOVEC) also merged with META Solutions on January 4, 2016. META Solutions develops, implements, and supports the technology and instructional needs of schools and provides instructional, core, technology, and purchasing services for its member districts. The Board of Directors consists of eight members from member districts. The South Central Ohio Computer Association Council of Governments was in the process of merging with META Solutions; however as of the date of this financial report, the merger had not yet been fully completed.

**Note 23 – Implementation of New Accounting Pronouncement**

The School District implemented Governmental Accounting Standards Board Statement No. 72, “Fair Value Measurement and Application.” GASB Statement No. 72 addresses accounting and financial issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. There was no effect on beginning net position/fund balance as a result of this implementation.

**Waverly City School District**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net Pension Liability*  
*Last Three Fiscal Years (1)*

	2013	2014	2015
<i>State Teachers Retirement System</i>			
School District's proportion of the net pension liability (asset)	0.06722524%	0.06722524%	0.06556426%
School District's proportionate share of the net pension liability (asset)	\$19,477,805	\$16,351,505	\$18,120,044
School District's covered-employee payroll	\$7,003,169	\$6,820,685	\$6,735,486
School District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	278.1%	239.7%	269.0%
Plan fiduciary net position as a percentage of the total pension liability	69.3%	74.7%	72.1%
<i>School Employees Retirement System</i>			
School District's proportion of the net pension liability (asset)	0.06924000%	0.06924000%	0.07125910%
School District's proportionate share of the net pension liability (asset)	\$4,117,481	\$3,504,197	\$4,066,113
School District's covered-employee payroll	\$1,900,470	\$2,808,117	\$3,059,484
School District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	216.7%	124.8%	132.9%
Plan fiduciary net position as a percentage of the total pension liability	65.5%	71.7%	69.2%

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

(1) Information not available prior to 2013.

**Waverly City School District**  
*Required Supplementary Information*  
*Schedule of School District Contributions*  
*Last Ten Fiscal Years*

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<i>State Teachers Retirement System</i>										
Contractually required contribution	\$1,029,227	\$1,016,360	\$1,020,884	\$1,058,380	\$1,031,326	\$910,196	\$910,412	\$886,689	\$942,968	\$953,064
Contributions in relation to the contractually required contribution	1,029,227	1,016,360	1,020,884	1,058,380	1,031,326	910,196	910,412	886,689	942,968	953,064
Contribution deficiency (excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
School District's covered-employee payroll	\$7,917,131	\$7,818,154	\$7,852,954	\$8,141,385	\$7,933,277	\$7,001,508	\$7,003,169	\$6,820,685	\$6,735,486	\$6,807,600
Contributions as a percentage of covered-employee payroll	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	14.00%	14.00%
<i>School Employees Retirement System</i>										
Contractually required contribution	\$223,620	\$177,998	\$188,678	\$329,031	\$362,772	\$277,678	\$263,025	\$389,205	\$403,240	\$440,352
Contributions in relation to the contractually required contribution	223,620	177,998	188,678	329,031	362,772	277,678	263,025	389,205	403,240	440,352
Contribution deficiency (excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
School District's covered-employee payroll	\$2,093,820	\$1,812,607	\$1,917,459	\$2,430,066	\$2,886,014	\$2,064,520	\$1,900,470	\$2,808,117	\$3,059,484	\$3,145,371
Contributions as a percentage of covered-employee payroll	10.68%	9.82%	9.84%	13.54%	12.57%	13.45%	13.84%	13.86%	13.18%	14.00%

The amounts presented for each fiscal year were determined as of June 30.

**Waverly City School District**  
*Schedule of Federal Awards Expenditures*  
*For the Fiscal Year Ended June 30, 2016*

Federal Grantor/Pass Through Grantor/Program Title	Pass Through Entity Number	Federal CFDA Number	Federal Awards Expenditures
<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	\$ 248,522
National School Lunch Program	3L60	10.555	506,712
National School Lunch Program - Non-Cash Assistance	3L60	10.555	<u>27,648</u>
Total Child Nutrition Cluster			<u>782,882</u>
<b>Total United States Department of Agriculture</b>			<u>782,882</u>
<b><u>United States Department of Education</u></b>			
<i>Passed through the Ohio Department of Education</i>			
Special Education-Grants to States	3M20	84.027	380,746
Title I Grants to Local Educational Agencies	3M00	84.010	714,586
Rural Education	3Y80	84.358	35,638
Improving Teacher Quality State Grants	3Y60	84.367	<u>116,491</u>
<b>Total United States Department of Education</b>			<u>1,247,461</u>
<b>Total Federal Financial Assistance</b>			<u><u>\$2,030,343</u></u>

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

**Waverly City School District**  
*Notes to the Schedule of Federal Awards Expenditures*  
*For the Fiscal Year Ended June 30, 2016*

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**Note 1 – Basis of Presentation**

The accompanying schedule of federal awards expenditures (the schedule) is a summary of the activity of the School District's federal award programs. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the School District.

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

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

**Note 3 – Food Donation Program**

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

**Note 4 – Child Nutrition Cluster**

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

**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  
Waverly City School District  
1 Tiger Drive  
Waverly, Ohio 45690

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 Waverly City School District, Pike County, Ohio (the School District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated January 31, 2017.

**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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2016-001 that we consider to be a material weakness.



### **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*.

### **School District's Response to Finding**

The School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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, CITP  
President/Owner  
Millhuff-Stang, CPA, Inc.  
Portsmouth, Ohio

January 31, 2017

**Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance  
Required by the Uniform Guidance**

Independent Auditor's Report

Board of Education  
Waverly City School District  
1 Tiger Drive  
Waverly, Ohio 45690

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

We have audited Waverly City School District's (the School District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School District's major federal programs for the year ended June 30, 2016. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 each major federal program. However, our audit does not provide a legal determination of the School District's compliance.

Waverly City School District  
Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance  
Required by the Uniform Guidance

**Basis for Qualified Opinion on the Child Nutrition Cluster**

As described in the accompanying schedule of findings and questioned costs, the School District did not comply with requirements regarding CFDA 10.553 and 10.555, Child Nutrition Cluster, as described in finding number 2016-002 for Reporting and finding number 2016-004 for Special Tests and Provisions. Compliance with such requirements is necessary, in our opinion, for the School District to comply with the requirement applicable to that program.

**Qualified Opinion on the Child Nutrition Cluster**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 the Child Nutrition Cluster for the year ended June 30, 2016.

**Unmodified Opinion on the Other 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 other major federal program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2016.

**Other Matters**

The School District's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The School District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

**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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or 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.

Waverly City School District  
Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance  
Required by the Uniform Guidance

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as finding numbers 2016-002, 2016-003 and 2016-004 that we consider to be material weaknesses.

The School District's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The School District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Natalie Millhuff-Stang, CPA, CITP  
President/Owner  
Millhuff-Stang, CPA, Inc.  
Portsmouth, Ohio

January 31, 2017

**Waverly City School District**  
*Schedule of Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2016*

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

<i>Financial Statements</i>	
Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No
<i>Federal Awards</i>	
Internal control over major program(s):	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	None reported
Type of auditor’s report issued on compliance for major programs:	Qualified – Nutrition Cluster (CFDA #10.555, 10.553) Unmodified – Title I (CFDA #84.010)
Any auditing findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes
Identification of major program(s):	Nutrition Cluster (CFDA #10.555, 10.553); Title I (CFDA #84.010)
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

**Section II – Financial Statement Findings**

**Finding 2016-001**

**Material Weakness – Food Service Internal Controls**

Having sound internal control procedures in place over the food service function is essential to ensure the District has properly accounted for financial activity, such as collections on sales and student accounts, and nonfinancial activity, such as breakfast, lunch, and ala carte counts. Failure to have a properly functioning system in place can result in errors in reporting, misappropriation of assets, and inaccurate tracking of inventory.

There were instances noted in testing where Daily Cashier Reports were not maintained and had to be reproduced from the system, in addition there was no indication that Daily Cashier Reports were reconciled to the amounts deposited.

We also noted that it appeared that none of the buildings were tracking their over/short amounts and there was no tracking of the cash in the drawer to start the day. Further, cashiers have access to adjust student accounts and although there is a process for monitoring of voids by the supervisor, void lists are only reviewed once a month.

Further, we noted that during breakfast for most of the year the Junior High did not utilize the computer system. If a student wanted an extra breakfast or a teacher wanted a breakfast, the money was collected and entered in as miscellaneous lunch receipts.

**Waverly City School District**  
*Schedule of Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2016*

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**Finding 2016-001 (Continued)**

**Material Weakness – Food Service Internal Controls (Continued)**

The District should print the Daily Cashier Reports after lunch is complete and the cashier should reconcile amounts received back to this report noting any errors or cash over/under and initial the report indicating the reconciliation was performed. This reconciliation should be reviewed by a supervisor or other employee and initialed again indicating a review was performed. Also, the Junior High should start using their computer system during breakfast to properly record amounts collected.

The Daily Sheet showing total items sold and total amounts collected for free, paid, reduced lunch/breakfast should be printed and reviewed daily. Further, the void listing should be printed each day and reviewed. Reviews should be evidenced by initials or a signature.

There should be a review performed on Site-Claim forms to ensure amounts recorded agree to the Detailed Items Report. The District should also establish policies and procedures over student accounts.

**Client Response:** Cashier reports are being printed after lunch with errors noted. Reconciliations are reviewed by a supervisor. Receipts are being added to the system daily. Training has been conducted with cashiers for system efficiency. A void list is created on a daily basis. The District is working to install a new system software.

<b>Section III – Federal Award Findings and Questioned Costs</b>
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<b>CFDA Title and Number</b>	Nutrition Cluster, CFDA #10.553 and #10.555
<b>Federal Award Number and Year</b>	2016
<b>Federal Agency</b>	US Department of Agriculture
<b>Pass-Through Entity</b>	Ohio Department of Education

**Finding 2016-002**

**Material Noncompliance/Material Weakness – Reporting**

7 CFR sections 210.7(c), 210.8(c), and 225.9(d) state that, at a minimum, a claim must include the number of reimbursable meals/milk serviced by category and type during the period (generally a month) covered by the claim. All meals claimed for reimbursement must (a) be of types authorized by the SFAs, institution’s, or sponsor’s administering agency; (b) be served to eligible children; and (c) be supported by accurate meal counts and records indicating the number of meals served by category and type. District buildings eligible for the Community Eligibility Provision (CEP) must also complete these forms for reimbursement although all students in these buildings are considered eligible children.

All District Buildings except the High School participate in the CEP. During the testing of site-claim forms (reimbursement requests), we noted that for the Junior High, Intermediate and Primary schools the only support for number of breakfasts served were hand written sheets with a total number for that day, even though computer systems were available. Upon further review, we noted the Intermediate and Primary schools served the children breakfast in the classroom, however at the Junior High, for most of the year the cashiers kept a manual tally sheet as the kids came through the line even though there was a register available for use.

**Waverly City School District**  
*Schedule of Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2016*

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**Finding 2016-002 (Continued)**

**Material Noncompliance/Material Weakness – Reporting (Continued)**

Furthermore, there was no indication that CN reports were being reviewed and the October Site Claim Form was not submitted to the Ohio Department of Education timely.

Not having a consistent procedure for the point of service and a lack of a supervisory review of the CN reports, exposes the District to a risk of misstatement of activity reported on the CN reports and/or incorrect Site Claim Forms being submitted, which could result in incorrect reimbursements made by the Ohio Department of Education. The District should implement point of service procedures to ensure that accurate meal counts for breakfast are maintained and the Junior High, who does not serve breakfast in the classroom, but rather through the cafeteria line, utilize the computer system during breakfast as they do during lunchtime. Additionally, daily CN reports should be reviewed for accuracy and completeness to ensure proper activity is reported on the Site Claim Forms for reimbursement and Site Claim Forms should be submitted timely. Reviews should be indicated by initial or signature to provide assurance of a functioning control process.

**Responsible Official’s Response and Corrective Action Planned:**

The Junior High is now utilizing the computer system for breakfast.

**Planned Implementation Date of Corrective Action:**

March 31, 2016

**Person Responsible for Corrective Action:**

Bill Hoover, Director of Operations

<b>CFDA Title and Number</b>	Nutrition Cluster, CFDA #10.553 and #10.555
<b>Federal Award Number and Year</b>	2016
<b>Federal Agency</b>	US Department of Agriculture
<b>Pass-Through Entity</b>	Ohio Department of Education

**Finding 2016-003**

**Material Weakness – Program Income**

Food service revenue from regular and reduced price meals qualify as program income to the Nutrition Cluster major federal program. Having sound internal control procedures to properly account for the financial activity is essential.

During testing of program income, we noted the following internal control deficiencies:

- For the High School and Intermediate Schools, there was no indication that Daily Cashier Reports were reconciled to the amounts deposited for most of the year.
- There is no apparent tracking of cash register over/short amounts or starting cash.
- Junior High breakfast sales are incorrectly classified in the system.
- There is no approval system in place for adjustments to student accounts or voids made by cashiers.
- There are a lack of controls governing the student cafeteria accounts, including a daily reconciliation of what is actually being charged to the student’s account and the cash register.

The above mentioned internal control deficiencies could result in errors or irregularities in receipts recorded and/or deposits made.

**Waverly City School District**  
*Schedule of Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2016*

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**Finding 2016-003 (Continued)**

**Material Weakness – Program Income (Continued)**

The District should review its internal control environment over the food service function to identify deficiencies in operating/monitoring processes and implement the appropriate procedures to ensure any identified deficiencies, including the deficiencies noted above, are adequately resolved. Further, functioning of this environment should be periodically reviewed to ensure established policies/procedures are still sufficient and are properly functioning.

**Responsible Official’s Response and Corrective Action Planned:**

A meeting was held with District personnel to clarify the appropriate processes for all food service functions. Monthly meetings are held with the Director of Operations and Food Service Coordinator to maintain execution the policies and procedures.

**Planned Implementation Date of Corrective Action:**

March 31, 2016

**Person Responsible for Corrective Action:**

Bill Hoover, Director of Operations

<b>CFDA Title and Number</b>	Nutrition Cluster, CFDA #10.553 and #10.555
<b>Federal Award Number and Year</b>	2016
<b>Federal Agency</b>	US Department of Agriculture
<b>Pass-Through Entity</b>	Ohio Department of Education

**Finding 2016-004**

**Material Weakness – Special Test and Provisions - Verification**

7 CFR section 245.6a(b) states that by November 15th of each school year, the LEA (or State in certain cases) must verify the current free and reduced price eligibility of households selected from a sample of applications that it has approved for free and reduced price meals, unless the LEA is otherwise exempt from the verification requirement. The verification sample size is based on the total number of approved applications on file on October 1st.

7 CFR section 245.11 states that beginning in School Year 2014-2015, certain LEAs were required to conduct a second review of initial eligibility determinations for free and reduced-price school meals and to submit the results of the reviews, including the number of reviewed applications for which the eligibility determinations changed and the type of change made.

The District did determine the verification sample size; however, they did not properly maintain support for the households that were selected for verification. The District should ensure that proper support is maintained for households that are selected for verification.

**Responsible Official’s Response and Corrective Action Planned:**

All corrections were made through ODE.

**Planned Implementation Date of Corrective Action:**

March 31, 2016

**Person Responsible for Corrective Action:**

Bill Hoover, Director of Operations



**Waverly City School District**  
*Schedule of Prior Audit Findings*  
For the Fiscal Year Ended June 30, 2016

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i><b>Explain</b></i>
Finding 2015-001	Material Weakness – Food Service Internal Controls	No	Reissued as finding 2016-001
Finding 2015-002	Material Noncompliance/Material Weakness – Nutrition Cluster – Reporting	No	Reissued as finding 2016-002
Finding 2015-003	Material Noncompliance/Material Weakness – Nutrition Cluster – Program Income	No	Reissued as finding 2016-003

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# Dave Yost • Auditor of State

WAVERLY CITY SCHOOL DISTRICT

PIKE COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
MAY 18, 2017