



Dave Yost • Auditor of State



**CITY OF WELLSTON  
JACKSON COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

City of Wellston  
Jackson County  
203 East Broadway Street  
Wellston, Ohio 45692

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wellston, Jackson County, Ohio (the City), as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wellston, Jackson County, Ohio, as of December 31, 2009, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General, Street and Cemetery Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the City will continue as a going concern. As discussed in Note 20 to the financial statements, the City has suffered recurring losses from operations and has a net asset deficiency that raise substantial doubt about its ability to continue as a going concern. In addition, the Auditor of State has determined a fiscal emergency exists, and a financial planning and supervision commission has assumed certain management responsibilities for the duration of this emergency pursuant to Chapter 118 of the Ohio Rev. Code. Note 20 describes Management's plans regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2011, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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 other assurance.



**Dave Yost**  
Auditor of State

May 26, 2011

**City of Wellston, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2009*  
*Unaudited*

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The discussion and analysis of the City of Wellston's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2009. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

**Financial Highlights**

Key financial highlights for 2009 are as follows:

- The City's total net assets decreased by three percent, or \$345,344, from the total net assets at the beginning of the year 2009.
- At the end of the current year, the City's governmental activities reported total net assets of \$4,851,346, a decrease of \$593,540 from the prior year. Unrestricted net assets were (\$832,295).
- At the end of the current year, unreserved fund balance for the General Fund was \$(350,455), which represents a 236 percent decrease from the prior year.
- Capital assets decreased \$54,851. Capital assets of governmental activities decreased \$116,035 or 6 percent. Capital assets of business-type activities increased \$61,184, or 0.6 percent.

**Using this Annual Financial Report**

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 City of Wellston as a financial whole or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Major 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 dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

**City of Wellston, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2009*  
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***Reporting the City of Wellston as a Whole***

**Statement of Net Assets and Statement of Activities**

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2009?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's net assets and changes in those assets. This change in net assets is important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, nonfinancial information such as the condition of City capital assets will also need to be evaluated.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two kinds of activities:

Governmental Activities – Most of the City's services are reported here including police, administration, and all departments with the exception of our Water, Sewer, and Garbage Funds.

Business-Type Activities – Water and sewer services have charges based upon the amount of usage. The City historically has not charged fees to recoup the cost of the entire operations of our Water and Sewer Treatment Plants as well as all capital expenses associated with the facilities. Garbage collection services have charges based upon set rates. The City attempts to set fees that cover the costs of providing the service.

***Reporting the City of Wellston's Most Significant Funds***

***Fund Financial Statements***

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. Fund financial reports provide detailed information about the City's major funds. Based on the restriction on the use of monies, the City has established many funds that account for the multitude of services provided to its residents. However, these fund financial statements focus on the City's most significant funds. The City's major governmental funds are the General Fund, the Street and Cemetery Special Revenue Funds, and the Permanent Investment Capital Projects Fund.

***Governmental Funds*** Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as balances of spendable resources available at the end of the year. Such information may be useful in evaluating the City's near-term financing requirements.



**City of Wellston, Ohio**  
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Because the focus of governmental funds is narrower than the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may better understand the long-term impact of the City's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains a number of individual governmental funds. Information for the major funds, identified earlier, is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single aggregated presentation.

**Enterprise Funds** The City uses enterprise funds to account for its water, sewer, and garbage operations. For water and sewer operations, the City charges a fee to customers, based upon the amount of usage, in an attempt to recover the costs of the services provided. For garbage operations, the City charges a flat monthly fee.

**Fiduciary Fund** The City accounts for resources held for the benefit of parties outside the government as a fiduciary fund. This fund is not reflected in the government-wide financial statements because the resources of this fund are not available to support the City's own programs. The City uses accrual accounting for fiduciary funds, the same as that of the proprietary funds.

**The City of Wellston as a Whole**

Recall that the Statement of Net Assets looks at the City as a whole. Table 1 provides a summary of the City's net assets for 2009 compared to 2008.

**Table 1**  
**Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
<b>Assets</b>						
Current and Other Assets	\$4,437,962	\$4,692,072	\$526,909	\$48,227	\$4,964,871	\$4,740,299
Capital Assets, Net	1,964,711	2,080,746	9,757,643	9,696,459	11,722,354	11,777,205
<i>Total Assets</i>	<u>6,402,673</u>	<u>6,772,818</u>	<u>10,284,552</u>	<u>9,744,686</u>	<u>16,687,225</u>	<u>16,517,504</u>
<b>Liabilities</b>						
Current and Other Liabilities	1,139,611	848,931	998,426	500,636	2,138,037	1,349,567
Noncurrent Liabilities	411,716	479,001	4,124,378	4,330,498	4,536,094	4,809,499
<i>Total Liabilities</i>	<u>1,551,327</u>	<u>1,327,932</u>	<u>5,122,804</u>	<u>4,831,134</u>	<u>6,674,131</u>	<u>6,159,066</u>
<b>Net Assets</b>						
Invested in Capital Assets,						
Net of Related Debt	1,667,899	1,696,267	5,672,582	5,425,221	7,340,481	7,121,488
Restricted	4,015,742	3,921,716	0	0	4,015,742	3,921,716
Unrestricted (Deficit)	(832,295)	(173,097)	(510,834)	(511,669)	(1,343,129)	(684,766)
<i>Total Net Assets</i>	<u>\$4,851,346</u>	<u>\$5,444,886</u>	<u>\$5,161,748</u>	<u>\$4,913,552</u>	<u>\$10,013,094</u>	<u>\$10,358,438</u>

**City of Wellston, Ohio**  
*Management's Discussion and Analysis*  
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Total governmental activities assets decreased \$370,145. Governmental activities' capital assets decreased \$116,035 due to depreciation expense. There was an increase in total liabilities for governmental activities of \$223,395 primarily due to an increase in intergovernmental payable, arising from the City not making all required retirement system payments during 2009. The \$61,184 increase in capital assets for business-type activities is due to the addition of new sludge basins at the North Water Treatment Plant, and construction beginning on another waterline project, offset by depreciation. Business-Type activities' current assets increased \$478,682, primarily due to an increase in cash and accounts receivable. Business-Type activities' current liabilities increased \$497,790 due to increases in accounts payable, intergovernmental payable, and contracts payable.

Table 2 shows the changes in net assets for the fiscal year ended December 31, 2009, and comparisons to 2008.

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

	Governmental Activities 2009	Business- Type Activities 2009	Total 2009	Governmental Activities 2008	Business- Type Activities 2008	Total 2008
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$341,526	\$3,240,791	\$3,582,317	\$364,091	\$2,709,502	\$3,073,593
Operating Grants and Contributions	1,189,584	114,200	1,303,784	647,255	0	647,255
<i>Total Program Revenues</i>	<u>1,531,110</u>	<u>3,354,991</u>	<u>4,886,101</u>	<u>1,011,346</u>	<u>2,709,502</u>	<u>3,720,848</u>
General Revenues:						
Property Taxes	471,997	0	471,997	501,461	0	501,461
Income Taxes	1,013,452	0	1,013,452	1,147,735	0	1,147,735
Grants and Entitlements	256,772	0	256,772	410,262	0	410,262
Investment Earnings	108,702	62	108,764	111,934	128	112,062
Miscellaneous	108,161	23,197	131,358	59,495	66,316	125,811
Total General Revenues	<u>1,959,084</u>	<u>23,259</u>	<u>1,982,343</u>	<u>2,230,887</u>	<u>66,444</u>	<u>2,297,331</u>
Total Revenues	<u>3,490,194</u>	<u>3,378,250</u>	<u>6,868,444</u>	<u>3,242,233</u>	<u>2,775,946</u>	<u>6,018,179</u>
Transfers	0	0	0	(15,500)	15,500	0
<i>Total Revenues and Transfers</i>	<u>3,490,194</u>	<u>3,378,250</u>	<u>6,868,444</u>	<u>3,226,733</u>	<u>2,791,446</u>	<u>6,018,179</u>
<b>Program Expenses</b>						
General Government	867,101	0	867,101	808,342	0	808,342
Security of Persons and Property	1,810,238	0	1,810,238	1,736,167	0	1,736,167
Transportation	461,369	0	461,369	462,661	0	462,661
Leisure Time Activities	82,324	0	82,324	111,680	0	111,680
Public Health Services	185,791	0	185,791	174,418	0	174,418
Community Environment	653,730	0	653,730	287,594	0	287,594
Interest and Fiscal Charges	23,181	0	23,181	18,544	0	18,544
Water	0	1,595,867	1,595,867	0	1,399,617	1,399,617
Sewer	0	1,116,320	1,116,320	0	1,038,047	1,038,047
Garbage	0	417,867	417,867	0	397,258	397,258
<i>Total Program Expenses</i>	<u>4,083,734</u>	<u>3,130,054</u>	<u>7,213,788</u>	<u>3,599,406</u>	<u>2,834,922</u>	<u>6,434,328</u>
Increase (Decrease) in Net Assets	(593,540)	248,196	(345,344)	(372,673)	(43,476)	(416,149)
Net Assets Beginning of Year	5,444,886	4,913,552	10,358,438	5,817,559	4,957,028	10,774,587
Net Assets End of Year	<u>\$4,851,346</u>	<u>\$5,161,748</u>	<u>\$10,013,094</u>	<u>\$5,444,886</u>	<u>\$4,913,552</u>	<u>\$10,358,438</u>

**City of Wellston, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2009*  
*Unaudited*

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***Governmental Activities***

Operating grants and contributions accounted for 34 percent of total governmental revenues. Tax revenue provided 43 percent of total governmental revenues. Of the 43 percent, 29 percent was generated from income taxes and 14 percent was generated from property and other local taxes. These revenue sources comprise the largest components of City revenues. Income taxes, property and other local taxes, and grants and contributions combined together, provided 77 percent of the City's total governmental revenues.

The City received \$341,526, or 10 percent of total governmental revenues, in charges for services. These direct charges to citizens include recreation fees, court fines and forfeitures, police security services, and licenses and permits.

The City's security of persons and property activities accounted for \$1,810,238, or 44 percent, of total expenses. General government activities utilized \$867,101, or 21 percent, of total expenses.

The following table presents the total expenses and net cost of each of the City's governmental program activities. The net cost (total program activity expenses less revenues generated by the program) represents the financial burden that was placed on the City's taxpayers by each of these program activities. Costs not covered by program revenues are essentially funded with the City's general revenues, which are primarily composed of income taxes, property taxes, payment in lieu of taxes, intergovernmental revenues, and unrestricted interest earnings.

**Table 3**  
**Program Expenses and Net Costs of Governmental Activities, by Program**  
**For the Year Ended December 31, 2009**

	Program Activity Expenses <u>2009</u>	Net Cost (Gain) of Program Activity <u>2009</u>	Program Activity Expenses <u>2008</u>	Net Cost (Gain) of Program Activity <u>2008</u>
General Government	\$867,101	\$623,794	\$808,342	\$471,753
Security of Persons and Property	1,810,238	1,650,653	1,736,167	1,662,726
Transportation	461,369	81,209	462,661	104,651
Leisure Time Activities	82,324	35,149	111,680	48,431
Public Health Services	185,791	124,187	174,418	133,508
Community Environment	653,730	14,451	287,594	148,447
Interest and Fiscal Charges	23,181	23,181	18,544	18,544
<b>Totals</b>	<u><u>\$4,083,734</u></u>	<u><u>\$2,552,624</u></u>	<u><u>\$3,599,406</u></u>	<u><u>\$2,588,060</u></u>

**City of Wellston, Ohio**  
*Management's Discussion and Analysis*  
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***Business-Type Activities***

The City's business-type activities are for water, sewer, and garbage services. During 2009, program revenues exceeded expenses by \$224,937.

The minimum water rate is \$9.46 for the first three thousand gallons of water. Sewer fees are calculated on the amount of water used. The minimum sewer rate is \$11.51 per month. Garbage fees are assessed at a flat rate of a \$14.33 per month.

**The City's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in accessing the City's financing requirements. In particular, unreserved fund balance serves as a useful measure of the City's net resources available for spending at the end of the year.

***General Fund***

The General Fund is the primary operating fund of the City. At the end of 2009, fund balance was \$(190,587).

The fund balance of the City's General Fund decreased by \$452,850. Revenues decreased while expenditures saw an increase. At the end of 2009, the General Fund transferred its remaining cash to support funds with negative cash balances. The General Fund had \$626 in cash at December 31, 2009, which was used, along with a \$1,186,444 advance from the Permanent Investment Capital Projects Fund, to temporarily support funds with negative cash balances.

***Other Major Governmental Funds***

The fund balance of the Street Special Revenue Fund at December 31, 2009, was (\$130,322), a decrease of \$39,594.

The fund balance of the Cemetery Special Revenue Fund at December 31, 2009, was (\$483,612), a decrease of \$129,158.

The fund balance of the Permanent Investment Capital Projects Fund at December 31, 2009, is \$2,433,835, the same as the prior year. The balance represents the proceeds from the 1967 sale of the City's electric utility.

***Enterprise Funds***

The City's enterprise funds provide the same type of information found in the government-wide financial statements, but in more detail.

The City's enterprise funds are the Water, Sewer, and Garbage Funds. The Water Fund's net assets increased \$155,337, the Sewer Fund's net assets increased \$146,385, and the Garbage Fund's net assets decreased \$53,526.

**City of Wellston, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2009*  
*Unaudited*

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**General Fund Budgetary Highlights**

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. From time to time during the year, the fund's budget may be amended as needs or conditions change.

The City made no revisions to the original appropriations approved by City Council. The General Fund budgeted revenue did not increase.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of 2009, the City had \$11,722,354 invested in capital assets, net of accumulated depreciation. Table 4 shows fiscal year 2009 balances compared to 2008.

**Table 4**  
**Capital Assets**  
**(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Land	\$103,550	\$103,550	\$0	\$0	\$103,550	\$103,550
Land Improvements Not Depreciated	81,141	81,141	0	0	81,141	81,141
Construction in Progress	47,726	36,548	124,372	0	172,098	36,548
Buildings and Improvements	562,724	586,007	6,025,642	6,274,985	6,588,366	6,860,992
Land Improvements	25,511	26,890	0	0	25,511	26,890
Equipment	31,626	37,730	235,576	265,587	267,202	303,317
Infrastructure	427,100	460,407	3,319,491	3,078,208	3,746,591	3,538,615
Vehicles	685,333	748,473	52,562	77,679	737,895	826,152
<b>Totals</b>	<b>\$1,964,711</b>	<b>\$2,080,746</b>	<b>\$9,757,643</b>	<b>\$9,696,459</b>	<b>\$11,722,354</b>	<b>\$11,777,205</b>

The total decrease in the City's capital assets, net of accumulated depreciation, for the current year was \$54,851 or 0.4 percent.

For additional information on capital assets, see Note 10 to the basic financial statements.

**City of Wellston, Ohio**  
*Management's Discussion and Analysis*  
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*Unaudited*

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**Debt**

As of December 31, 2009, and December 31, 2008, the City had total long-term debt of \$4,285,835 and \$4,687,384, respectively, as follows:

**Table 5**  
**Outstanding Debt**

	Governmental Activities		Business-Type Activities		Totals	
	2009	2008	2009	2008	2009	2008
General Obligation Bonds	\$0	\$0	\$633,000	\$648,000	\$633,000	\$648,000
Revenue Bonds	0	0	1,587,000	1,694,429	1,587,000	1,694,429
OPWC Loans	0	0	329,839	274,342	329,839	274,342
OWDA Loans	0	0	1,360,572	1,566,497	1,360,572	1,566,497
Other Long-Term Loans	325,146	416,146	50,278	87,970	375,424	504,116
<b>Totals</b>	<b>\$325,146</b>	<b>\$416,146</b>	<b>\$3,960,689</b>	<b>\$4,271,238</b>	<b>\$4,285,835</b>	<b>\$4,687,384</b>

The City's overall legal debt margin was \$6,566,923. For additional information on debt, see Note 15 to the basic financial statements.

**Economic Factors**

One of the largest employers in Wellston continues its program of expansion in the area, creating new jobs, which will result in an increase in tax revenue.

**Requests for Information**

This financial report is designed to provide the City's citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report, please contact the City of Wellston Auditor's Office by calling (740)384-2428 or by writing the City Auditor at 203 East Broadway, Wellston, Ohio 45292.

**City of Wellston, Ohio**

*Statement of Net Assets*

*December 31, 2009*

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$2,659,062	\$141,831	\$2,800,893
Accounts Receivable	0	707,841	707,841
Intergovernmental Receivable	164,243	0	164,243
Permissive Motor Vehicle License Tax Receivable	4,175	0	4,175
Internal Balances	478,547	(478,547)	0
Income Taxes Receivable	314,431	0	314,431
Property Taxes Receivable	605,055	0	605,055
Loans Receivable	212,449	0	212,449
Customer Deposits	0	155,784	155,784
Non-Depreciable Capital Assets	232,417	124,372	356,789
Depreciable Capital Assets, Net	<u>1,732,294</u>	<u>9,633,271</u>	<u>11,365,565</u>
<i>Total Assets</i>	<u>6,402,673</u>	<u>10,284,552</u>	<u>16,687,225</u>
<b>Liabilities</b>			
Accounts Payable	158,588	149,537	308,125
Contracts Payable	0	330,295	330,295
Accrued Wages and Benefits Payable	22,783	15,877	38,660
Intergovernmental Payable	567,754	290,688	858,442
Accrued Interest Payable	5,348	56,245	61,593
Deferred Revenue	385,138	0	385,138
Customer Deposits Payable	0	155,784	155,784
Long-Term Liabilities:			
Due Within One Year	141,075	427,915	568,990
Due In More Than One Year	<u>270,641</u>	<u>3,696,463</u>	<u>3,967,104</u>
<i>Total Liabilities</i>	<u>1,551,327</u>	<u>5,122,804</u>	<u>6,674,131</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	1,667,899	5,672,582	7,340,481
Restricted for:			
Street Construction	516,915	0	516,915
Police Protection	20,454	0	20,454
Community Development	749,975	0	749,975
Capital Projects	2,459,753	0	2,459,753
Cemetery Endowment:			
Expendable Portion	45,281	0	45,281
Nonexpendable Portion	204,347	0	204,347
Other Purposes	19,017	0	19,017
Unrestricted (Deficit)	<u>(832,295)</u>	<u>(510,834)</u>	<u>(1,343,129)</u>
<i>Total Net Assets</i>	<u>\$4,851,346</u>	<u>\$5,161,748</u>	<u>\$10,013,094</u>

See accompanying notes to the basic financial statements

**City of Wellston, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2009

	Program Revenues			Net (Expense) Revenue and Change in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Governmental Activities	Business - Type Activities	Total
<b>Governmental Activities</b>						
General Government	\$867,101	\$99,023	\$144,284	(\$623,794)	\$0	(\$623,794)
Security of Persons and Property	1,810,238	68,410	91,175	(1,650,653)	0	(1,650,653)
Transportation	461,369	0	380,160	(81,209)	0	(81,209)
Leisure Time Activities	82,324	30,581	16,594	(35,149)	0	(35,149)
Public Health Services	185,791	43,800	17,804	(124,187)	0	(124,187)
Community Environment	653,730	99,712	539,567	(14,451)	0	(14,451)
Interest and Fiscal Charges	23,181	0	0	(23,181)	0	(23,181)
<i>Total Governmental Activities</i>	<u>4,083,734</u>	<u>341,526</u>	<u>1,189,584</u>	<u>(2,552,624)</u>	<u>0</u>	<u>(2,552,624)</u>
<b>Business-Type Activities</b>						
Water	1,595,867	1,615,622	114,200	0	133,955	133,955
Sewer	1,116,320	1,262,705	0	0	146,385	146,385
Garbage	417,867	362,464	0	0	(55,403)	(55,403)
<i>Total Business-Type Activities</i>	<u>3,130,054</u>	<u>3,240,791</u>	<u>114,200</u>	<u>0</u>	<u>224,937</u>	<u>224,937</u>
<i>Total</i>	<u>\$7,213,788</u>	<u>\$3,582,317</u>	<u>\$1,303,784</u>	<u>(2,552,624)</u>	<u>224,937</u>	<u>(2,327,687)</u>
<b>General Revenues</b>						
Property Taxes Levied for:						
General Purposes				170,267	0	170,267
Cemetery				0	0	0
Fire Protection				203,466	0	203,466
Streets				98,264	0	98,264
Income Taxes Levied for General Purposes				1,013,452	0	1,013,452
Grants and Entitlements not Restricted to Specific Programs				256,772	0	256,772
Investment Earnings				108,702	62	108,764
Miscellaneous				108,161	23,197	131,358
<i>Total General Revenues</i>				<u>1,959,084</u>	<u>23,259</u>	<u>1,982,343</u>
Change in Net Assets				(593,540)	248,196	(345,344)
<i>Net Assets Beginning of Year</i>				<u>5,444,886</u>	<u>4,913,552</u>	<u>10,358,438</u>
<i>Net Assets End of Year</i>				<u>\$4,851,346</u>	<u>\$5,161,748</u>	<u>\$10,013,094</u>

See accompanying notes to the basic financial statements



**City of Wellston, Ohio**  
*Balance Sheet*  
*Governmental Funds*  
*December 31, 2009*

	General	Street	Cemetery	Permanent Investment	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Equity in Pooled Cash and Cash Equivalents	\$0	\$0	\$0	\$1,247,391	\$1,411,671	\$2,659,062
Receivables:						
Accrued Interest	0	0	0	0	0	0
Intergovernmental	42,510	112,339	0	0	9,394	164,243
Permissive Motor Vehicle License Tax	0	4,175	0	0	0	4,175
Interfund	1,187,070	0	0	1,186,444	0	2,373,514
Income Taxes	314,431	0	0	0	0	314,431
Property Taxes	253,473	0	0	0	351,582	605,055
Loans	0	0	0	0	212,449	212,449
<i>Total Assets</i>	<u>\$1,797,484</u>	<u>\$116,514</u>	<u>\$0</u>	<u>\$2,433,835</u>	<u>\$1,985,096</u>	<u>\$6,332,929</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts Payable	\$68,668	\$22,334	\$1,289	\$0	\$66,297	\$158,588
Accrued Wages and Benefits Payable	16,223	3,247	849	0	2,464	22,783
Intergovernmental Payable	434,923	46,298	15,690	0	70,843	567,754
Deferred Revenue	281,813	274	0	0	357,964	640,051
Interfund Payable	1,186,444	174,683	465,784	0	68,056	1,894,967
<i>Total Liabilities</i>	<u>1,988,071</u>	<u>246,836</u>	<u>483,612</u>	<u>0</u>	<u>565,624</u>	<u>3,284,143</u>
<b>Fund Balances</b>						
Reserved for Encumbrances	159,868	5,660	13,886	0	102,926	282,340
Reserved for Endowments	0	0	0	0	204,347	204,347
Reserved for Loans Receivable	0	0	0	0	193,061	193,061
Unreserved, Undesignated, Reported in:						
General Fund	(350,455)	0	0	0	0	(350,455)
Special Revenue Funds (Deficit)	0	(135,982)	(497,498)	0	847,939	214,459
Capital Projects Funds	0	0	0	2,433,835	25,918	2,459,753
Permanent Funds	0	0	0	0	45,281	45,281
<i>Total Fund Balance (Deficit)</i>	<u>(190,587)</u>	<u>(130,322)</u>	<u>(483,612)</u>	<u>2,433,835</u>	<u>1,419,472</u>	<u>3,048,786</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$1,797,484</u>	<u>\$116,514</u>	<u>\$0</u>	<u>\$2,433,835</u>	<u>\$1,985,096</u>	<u>\$6,332,929</u>

See accompanying notes to the basic financial statements

**City of Wellston, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 December 31, 2009*

**Total Governmental Fund Balances** \$3,048,786

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

Capital Assets used in governmental activities are not  
 financial resources and therefore are not reported in the funds. 1,964,711

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

Property Taxes	144,875	
Intergovernmental Revenues	110,038	
Total		254,913

Some liabilities are not due and payable in the current  
 period and therefore are not reported in the funds:

Compensated Absences Payable	(86,570)	
Accrued Interest Payable	(5,348)	
Long-Term Loans Payable	(325,146)	
Total		(417,064)

**Net Assets of Governmental Activities** \$4,851,346

See accompanying notes to the basic financial statements

**City of Wellston, Ohio**  
*Combined Statement of Revenues, Expenditures  
and Changes in Fund Balances*  
Governmental Funds  
For the Year Ended December 31, 2009

	General	Street	Cemetery	Permanent Investment	Other Governmental Funds	Totals Governmental Funds
<b>Revenues</b>						
Property Taxes	\$163,157	\$0	\$0	0	\$291,868	\$455,025
Municipal Income Taxes	1,013,452	0	0	0	0	1,013,452
Permissive Motor Vehicle License Taxes	0	47,086	0	0	0	47,086
Intergovernmental	256,772	297,542	12,442	0	839,983	1,406,739
Charges for Services	21,651	0	33,850	0	58,459	113,960
Fines and Forfeitures	45,088	0	0	0	3,825	48,913
Licenses and Permits	30,875	0	0	0	0	30,875
Investment Earnings	108,702	0	4,269	0	6,551	119,522
Rent	46,896	0	0	0	100,882	147,778
Contributions and Donations	375	0	0	0	20,073	20,448
Other	78,478	3,181	532	0	25,970	108,161
<i>Total Revenues</i>	<u>1,765,446</u>	<u>347,809</u>	<u>51,093</u>	<u>0</u>	<u>1,347,611</u>	<u>3,511,959</u>
<b>Expenditures</b>						
Current:						
General Government	691,409	0	0	0	173,657	865,066
Security of Persons and Property	1,388,105	0	0	0	373,745	1,761,850
Transportation	0	366,636	0	0	23,435	390,071
Leisure Time Activities	0	0	0	0	89,879	89,879
Public Health Services	0	0	180,251	0	1,319	181,570
Community Environment	0	0	0	0	632,367	632,367
Debt Service:						
Principal Retirement	60,486	17,654	0	0	12,860	91,000
Interest and Fiscal Charges	12,209	3,113	0	0	8,549	23,871
<i>Total Expenditures</i>	<u>2,152,209</u>	<u>387,403</u>	<u>180,251</u>	<u>0</u>	<u>1,315,811</u>	<u>4,035,674</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(386,763)</u>	<u>(39,594)</u>	<u>(129,158)</u>	<u>0</u>	<u>31,800</u>	<u>(523,715)</u>
<b>Other Financing Sources (Uses)</b>						
Transfers In	0	0	0	0	66,087	66,087
Transfers Out	(66,087)	0	0	0	0	(66,087)
<i>Total Other Financing Sources (Uses)</i>	<u>(66,087)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>66,087</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	<u>(452,850)</u>	<u>(39,594)</u>	<u>(129,158)</u>	<u>0</u>	<u>97,887</u>	<u>(523,715)</u>
<i>Fund Balances (Deficit) Beginning of Year, as Restated (See Note 3)</i>	<u>262,263</u>	<u>(90,728)</u>	<u>(354,454)</u>	<u>2,433,835</u>	<u>1,321,585</u>	<u>3,572,501</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$190,587)</u>	<u>(\$130,322)</u>	<u>(\$483,612)</u>	<u>\$2,433,835</u>	<u>\$1,419,472</u>	<u>\$3,048,786</u>

See accompanying notes to the general purpose financial statements

**City of Wellston, Ohio**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2009*

**Net Change in Fund Balances - Total Governmental Funds** (\$523,715)

*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:

Capital Asset Additions	11,178	
Depreciation Expense	<u>(127,213)</u>	(116,035)

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

Grants	(21,014)	
Permissive Motor Vehicle License Tax	(17,723)	
Delinquent Property Taxes	<u>16,972</u>	(21,765)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 91,000

In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest is expended when due. 690

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:

Compensated Absences Payable		<u>(23,715)</u>
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*Change in Net Assets of Governmental Activities* (\$593,540)

See accompanying notes to the basic financial statements

**City of Wellston, Ohio**  
*Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual (Budget Basis)  
General Fund  
For the Year Ended December 31, 2009*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Property Taxes	\$177,294	\$271,234	\$163,157	(\$108,077)
Municipal Income Taxes	1,079,716	1,068,465	993,625	(74,840)
Intergovernmental	279,020	200,123	256,772	56,649
Charges for Services	23,527	23,282	21,651	(1,631)
Fines and Forfeitures	48,995	48,484	45,088	(3,396)
Licenses and Permits	33,550	33,201	30,875	(2,326)
Investment Earnings	121,254	119,991	111,586	(8,405)
Rent	50,959	50,428	46,896	(3,532)
Contributions and Donations	407	403	375	(28)
Other	85,278	84,389	78,478	(5,911)
<i>Total Revenues</i>	<u>1,900,000</u>	<u>1,900,000</u>	<u>1,748,503</u>	<u>(151,497)</u>
<b>Expenditures</b>				
Current:				
General Government	561,778	561,778	664,320	(102,542)
Security of Persons and Property	1,157,150	1,157,150	1,337,535	(180,385)
Debt Service:				
Principal Retirement	68,500	68,500	60,486	8,014
Interest and Fiscal Charges	0	0	12,209	(12,209)
<i>Total Expenditures</i>	<u>1,787,428</u>	<u>1,787,428</u>	<u>2,074,550</u>	<u>(287,122)</u>
<i>Excess of Revenues Over Expenditures</i>	112,572	112,572	(326,047)	(438,619)
<b>Other Financing Uses</b>				
Transfers Out	0	0	(66,087)	(66,087)
<i>Net Change in Fund Balance</i>	112,572	112,572	(392,134)	(504,706)
<i>Fund Balance Beginning of Year, as Restated (See Note 3)</i>	<u>164,224</u>	<u>164,224</u>	<u>164,224</u>	<u>C 0</u>
<i>Fund Balance End of Year</i>	<u>\$276,796</u>	<u>\$276,796</u>	<u>(\$227,910)</u>	<u>(\$504,706)</u>

See accompanying notes to the basic financial statements

**City of Wellston, Ohio**  
*Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual (Budget Basis)*  
*Street Fund*  
For the Year Ended December 31, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Permissive Motor Vehicle Tax	\$54,207	\$54,207	\$50,044	(\$4,163)
Intergovernmental	241,603	241,603	223,046	(18,557)
Other	3,446	3,446	3,181	(265)
<i>Total Revenues</i>	<u>299,256</u>	<u>299,256</u>	<u>276,271</u>	<u>(22,985)</u>
<b>Expenditures</b>				
Current:				
Transportation	313,019	313,019	359,006	(45,987)
Debt Service:				
Principal Retirement	0	0	17,654	(17,654)
Interest and Fiscal Charges	0	0	3,113	(3,113)
<i>Total Expenditures</i>	<u>313,019</u>	<u>313,019</u>	<u>379,773</u>	<u>(66,754)</u>
<i>Net Change in Fund Balance</i>	(13,763)	(13,763)	(103,502)	(89,739)
<i>Fund Balance Deficit Beginning of Year</i>	<u>(99,175)</u>	<u>(99,175)</u>	<u>(99,175)</u>	<u>0</u>
<i>Fund Balance Deficit End of Year</i>	<u><u>(\$112,938)</u></u>	<u><u>(\$112,938)</u></u>	<u><u>(\$202,677)</u></u>	<u><u>(\$89,739)</u></u>

See accompanying notes to the basic financial statements

**City of Wellston, Ohio**  
*Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual (Budget Basis)*  
**Cemetery Fund**  
For the Year Ended December 31, 2009

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Property and Other Taxes	\$20,485	\$0	\$0	\$0
Intergovernmental	1,320	21,805	12,442	(9,363)
Charges for Services	59,322	59,322	33,850	(25,472)
Investment Earnings	7,941	7,941	4,531	(3,410)
Other	932	932	532	(400)
<i>Total Revenues</i>	90,000	90,000	51,355	(38,645)
<b>Expenditures</b>				
Current:				
Public Health Services	166,614	166,614	194,467	(27,853)
<i>Net Change in Fund Balance</i>	(76,614)	(76,614)	(143,112)	(66,498)
<i>Fund Balance Deficit Beginning of Year, as Restated (See Note 3)</i>	(337,847)	(337,847)	(337,847)	0
<i>Fund Balance Deficit End of Year</i>	(\$414,461)	(\$414,461)	(\$480,959)	(\$66,498)

See accompanying notes to the basic financial statements

**City of Wellston, Ohio**  
*Statement of Fund Net Assets*  
*Enterprise Funds*  
*December 31, 2009*

	Water	Sewer	Garbage	Total Enterprise Funds
<b>Assets</b>				
Current:				
Equity in Pooled Cash and Cash Equivalents	\$0	\$141,831	\$0	\$141,831
Accounts Receivable	392,255	296,040	19,546	707,841
Restricted Assets:				
Customer Deposits	155,784	0	0	155,784
<i>Total Current Assets</i>	<u>548,039</u>	<u>437,871</u>	<u>19,546</u>	<u>1,005,456</u>
Noncurrent:				
Non-Depreciable Capital Assets	124,372	0	0	124,372
Depreciable Capital Assets, Net	2,548,905	7,084,366	0	9,633,271
<i>Total Assets</i>	<u>3,221,316</u>	<u>7,522,237</u>	<u>19,546</u>	<u>10,763,099</u>
<b>Liabilities</b>				
Current:				
Accounts Payable	97,645	37,611	14,281	149,537
Contracts Payable	330,295	0	0	330,295
Accrued Wages and Benefits Payable	8,657	5,134	2,086	15,877
Intergovernmental Payable	150,063	96,634	43,991	290,688
Accrued Interest Payable	4,995	51,167	83	56,245
Interfund Payable	311,981	0	166,566	478,547
Customer Deposits Payable	155,784	0	0	155,784
OPWC Loans Payable	54,738	4,548	0	59,286
OWDA Loans Payable	80,826	129,487	0	210,313
Notes Payable	13,765	0	15,231	28,996
Compensated Absences Payable	51,509	2,734	22,077	76,320
Revenue Bonds Payable	0	53,000	0	53,000
<i>Total Current Liabilities</i>	<u>1,260,258</u>	<u>380,315</u>	<u>264,315</u>	<u>1,904,888</u>
Long-Term:				
OPWC Loans Payable	241,749	28,804	0	270,553
OWDA Loans Payable	339,785	810,474	0	1,150,259
Notes Payable	21,282	0	0	21,282
Compensated Absences Payable	66,385	0	20,984	87,369
Revenue Bonds Payable	0	2,167,000	0	2,167,000
<i>Total Long-Term Liabilities</i>	<u>669,201</u>	<u>3,006,278</u>	<u>20,984</u>	<u>3,696,463</u>
<i>Total Liabilities</i>	<u>1,929,459</u>	<u>3,386,593</u>	<u>285,299</u>	<u>5,601,351</u>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	1,796,760	3,891,053	(15,231)	5,672,582
Unrestricted (Deficit)	(504,903)	244,591	(250,522)	(510,834)
<i>Total Net Assets (Deficit)</i>	<u>\$1,291,857</u>	<u>\$4,135,644</u>	<u>(\$265,753)</u>	<u>\$5,161,748</u>

See accompanying notes to the basic financial statements



**City of Wellston, Ohio**  
*Statement of Revenues, Expenses and Changes in Fund Net Assets*  
*Enterprise Funds*  
*For the Year Ended December 31, 2009*

	Water	Sewer	Garbage	Total Enterprise Funds
<b>Operating Revenues</b>				
Charges for Services	\$1,615,622	\$1,262,705	\$362,464	\$3,240,791
Other	21,320	0	1,877	23,197
<i>Total Operating Revenues</i>	<u>1,636,942</u>	<u>1,262,705</u>	<u>364,341</u>	<u>3,263,988</u>
<b>Operating Expenses</b>				
Personal Services	533,507	260,471	163,912	957,890
Fringe Benefits	473,890	212,813	149,131	835,834
Contractual Services	259,787	154,528	78,299	492,614
Materials and Supplies	232,243	89,952	15,698	337,893
Depreciation	84,026	264,831	10,100	358,957
<i>Total Operating Expenses</i>	<u>1,583,453</u>	<u>982,595</u>	<u>417,140</u>	<u>2,983,188</u>
<i>Operating Income (Loss)</i>	<u>53,489</u>	<u>280,110</u>	<u>(52,799)</u>	<u>280,800</u>
<b>Non-Operating Revenues (Expenses)</b>				
Investment Earnings	62	0	0	62
Grants	114,200	0	0	114,200
Interest and Fiscal Charges	(12,414)	(133,725)	(727)	(146,866)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>101,848</u>	<u>(133,725)</u>	<u>(727)</u>	<u>(32,604)</u>
<i>Change in Net Assets</i>	155,337	146,385	(53,526)	248,196
<i>Net Assets (Deficit) Beginning of Year</i>	<u>1,136,520</u>	<u>3,989,259</u>	<u>(212,227)</u>	<u>4,913,552</u>
<i>Net Assets (Deficit) End of Year</i>	<u><u>\$1,291,857</u></u>	<u><u>\$4,135,644</u></u>	<u><u>(\$265,753)</u></u>	<u><u>\$5,161,748</u></u>

See accompanying notes to the basic financial statements

**City of Wellston, Ohio**  
**Statement of Cash Flows**  
**Enterprise Funds**  
**For the Year Ended December 31, 2009**

	Water	Sewer	Garbage	Total Enterprise Funds
<b>Increase (Decrease) in Cash and Cash Equivalents</b>				
<b>Cash Flows from Operating Activities</b>				
Cash Received from Customers	\$1,465,387	\$1,140,580	\$354,989	\$2,960,956
Other Cash Receipts	21,320	0	1,877	23,197
Cash Payments for Employee Services and Benefits	(849,497)	(414,607)	(261,057)	(1,525,161)
Cash Payments for Goods and Services	(451,891)	(244,366)	(113,390)	(809,647)
Utility Deposits Returned	(5,847)	0	0	(5,847)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>179,472</u>	<u>481,607</u>	<u>(17,581)</u>	<u>643,498</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Operating Grants Received	114,200	0	0	114,200
Advances In	311,981	0	166,566	478,547
Advances Out	(396,045)	(24,065)	(130,420)	(550,530)
<i>Net Cash Provided by (Used for) Noncapital Financing Activities</i>	<u>30,136</u>	<u>(24,065)</u>	<u>36,146</u>	<u>42,217</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Proceeds from the Sale of Notes	75,259	0	0	75,259
Payments for Capital Acquisitions	(88,012)	0	0	(88,012)
Principal Paid on Revenue Bonds	(71,429)	(36,000)	0	(107,429)
Principal Paid on General Obligation Bonds	0	(15,000)	0	(15,000)
Principal Paid on Other Loans	(19,950)	0	(17,742)	(37,692)
Principal Paid on OWDA Loans	(79,240)	(126,685)	0	(205,925)
Principal Paid on OPWC Loans	(18,246)	(1,516)	0	(19,762)
Interest Paid on Revenue Bonds	(1,464)	(81,100)	0	(82,564)
Interest Paid on General Obligation Bonds	0	(32,350)	0	(32,350)
Interest Paid on Other Loans	(2,442)	0	(823)	(3,265)
Interest Paid on OWDA Loans	(9,996)	(23,060)	0	(33,056)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(215,520)</u>	<u>(315,711)</u>	<u>(18,565)</u>	<u>(549,796)</u>
<b>Cash Flows from Investing Activities</b>				
Investment Earnings	65	0	0	65
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(5,847)	141,831	0	135,984
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>161,631</u>	<u>0</u>	<u>0</u>	<u>161,631</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$155,784</u>	<u>\$141,831</u>	<u>\$0</u>	<u>\$297,615</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</b>				
Operating Income (Loss)	\$53,489	\$280,110	(\$52,799)	\$280,800
Adjustments:				
Depreciation	84,026	264,831	10,100	358,957
Changes in Assets and Liabilities:				
Increase in Accounts Receivable	(150,235)	(122,125)	(7,475)	(279,835)
Decrease in Prepaid Items	5,067	3,721	332	9,120
Increase (Decrease) in Accounts Payable	60,822	21,530	(12,074)	70,278
Increase (Decrease) in Accrued Wages and Benefits Payable	2,415	2,149	(292)	4,272
Increase in Intergovernmental Payable	52,952	33,217	15,155	101,324
Decrease in Customer Deposits Absences Payable	(5,847)	0	0	(5,847)
Increase (Decrease) in Compensated Absences Payable	76,783	(1,826)	29,472	104,429
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>\$179,472</u>	<u>\$481,607</u>	<u>(\$17,581)</u>	<u>\$643,498</u>

See accompanying notes to the basic financial statements

**City of Wellston, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*December 31, 2009*

**Assets**

Equity in Pooled Cash and Cash Equivalents	<u><u>\$15,020</u></u>
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**Liabilities**

Due to Others	<u><u>\$15,020</u></u>
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See accompanying notes to the basic financial statements

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**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2009*

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**NOTE 1 - REPORTING ENTITY**

The City of Wellston (the “City”) is a body politic, incorporated and established for the purpose of exercising the rights and privileges conveyed to it by the laws of the State of Ohio. The City was founded in 1873.

The City of Wellston is a home rule municipal corporation established under the laws of the State of Ohio. The legislative authority is vested in a seven member council, all of whom are elected at-large for staggered four year terms. The presiding officer is the president, who is elected by the Council for a one year term. Council enacts ordinances and resolutions relating to tax levies, city services, and licensing; appropriates and borrows money; and accepts bids for materials, services, and other municipal purposes. The Mayor, Auditor, and Treasurer are elected at-large. The Mayor is the Chief Executive Officer of the City. The Mayor supervises the administration of all departments and appoints their directors and all other employees in accordance with civil service requirements.

**Reporting Entity**

The financial reporting entity is composed of the primary government, component units, and other organizations that are included to ensure that the financial statements of the City are not misleading. The primary government consists of all funds and departments that are not legally separate from the City. Services provided by the primary government include police and fire protection, street maintenance and repairs, community and economic development, parks and recreation, and water, sewer, and garbage services. A staff provides support (i.e., payroll processing, accounts payable, revenue collection) to the service providers. The operation and control of these activities is provided by the City Council through the budgetary process and by the City Auditor and the City Mayor through administrative and managerial requirements and procedures.

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Wellston have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its enterprise funds unless those pronouncements conflict with or contradict GASB pronouncements. The City has elected not to apply FASB statements and interpretations issued after November 30, 1989, to its business-type activities and enterprise funds. The more significant of the City's accounting policies are described below.

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2009*

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A. Basis of Presentation

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

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

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

Fund Financial Statements

During the year, the City segregates transactions related to certain City 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 City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

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

Governmental Funds

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

General Fund - The General Fund accounts for and reports all financial resources not accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2009*

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Street Fund – The Street Special Revenue Fund is used to account for the portion of state gasoline tax and motor vehicle registration fees restricted for maintenance and repair of dedicated streets within the City.

Cemetery Fund – The Cemetery Special Revenue Fund is used to account for the operation of the Ridgewood Cemetery.

Permanent Investment Fund – The Permanent Investment Capital Projects Fund is used to account for proceeds from the sale of the City’s electric plant. Per local ordinance, these proceeds may only be used for capital expenditures.

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

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as either enterprise or internal service. The City’s proprietary funds are all classified as enterprise funds. Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. All of the City’s enterprise funds are major funds.

Water Fund – The Water Fund is used to account for the revenues generated from the charges for distribution of water to the residential and commercial users within the City.

Sewer Fund – The Sewer Fund is used to account for the revenues generated from the charges for sanitary sewer services provided to the residential and commercial users within the City.

Garbage Fund – The Garbage Fund is used to account for the revenues generated from the charges for garbage removal services provided to the residential and commercial users within the City.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. There are four categories of fiduciary funds; pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City’s own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City’s only fiduciary funds are agency funds. The City’s agency funds account for monies held for police and fire auxiliary organizations.

C. Measurement Focus

Government-wide Financial Statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets. The statement of activities accounts for increases (i.e. revenues) and decreases (i.e. expenditures) in total net assets.

Fund Financial Statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2009*

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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. Therefore, governmental fund financial statements 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 funds 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 assets. The statement of changes in revenues, expenses, and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

D. Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions

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

Non-exchange transactions, in which the City received value without directly giving equal value in return, includes income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the taxable income is earned. Revenue from property taxes is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursable basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue resources are considered to be both measurable and available at year end: interest, federal and state grant subsidies, state-levied local shared taxes (including motor vehicle license fees and gasoline taxes), income taxes, fees, and rentals.



**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2009*

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Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2009, but which were levied to finance year 2010 operations have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

E. Budgetary Process

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolutions, 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 amount the City Council may appropriate. The appropriations resolution is the City Council's authorization to spend resources and sets annual limits on the expenditures plus encumbrances at the level of control selected by the City Council. The legal level of budgetary control is at the object level within each department. Any budgetary modifications at this level may only be made by resolution of the City Council. Advances between funds are not required to be budgeted.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the City Auditor. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were adopted by City Council.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts in the budgetary statements reflect the first appropriation resolution for the fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by City Council during the year.

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2009*

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**F. Cash and Cash Equivalents**

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

During 2009, investments were limited to certificates of deposit, which are reported at cost.

Provisions of the Ohio Revised Code restrict investment procedures. Under existing Ohio statutes all investment earnings are assigned to the General fund unless statutorily required to be credited to a specific fund. During 2009, interest was distributed to the General Fund and to the Cemetery, Recreation, CDBG Revolving Loan, and UDAG Revolving Loan Special Revenue Funds. Interest revenue credited to the General Fund during 2009 amounted to \$108,702, which includes \$105,214 assigned from other City funds.

Investments with an original maturity of three months or less at the time of purchase and investments of the cash management pool are presented on the financial statements as cash equivalents.

**G. Receivables and Payables**

Receivables and payables are recorded on the City's financial statements to the extent that the amounts are determined to be material and are substantiated not only by supporting documentation, but also, by a reasonable, systematic method of determining their existence, completeness, valuation and, in the case of receivables, collectibility.

**H. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "interfund receivables/payables." The amounts are eliminated in the governmental and business-type activities columns on the statements of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

**I. 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 are imposed by law through constitutional provisions or enabling legislation. Restricted assets in the enterprise funds represent water customer deposits.

**J. Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities columns of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the enterprise funds are reported both in the business-type activities column of the government-wide statement of net assets and in the funds.

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2009*

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All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Governmental activities' infrastructure amounts represent capital asset purchases made since January 1, 2004. The City has elected not to retroactively report governmental activities' infrastructure. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of ten thousand dollars. 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 are depreciated except for land, certain land improvements, and construction in progress. Improvements are depreciated over the remaining useful life of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Land Improvements	20 years	N/A
Buildings and Improvements	20-40 years	20-40 years
Equipment	15 years	15 years
Infrastructure	15 years	70 years
Vehicles	5-25 years	5-25 years

**K. 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 City will compensate the employees for the benefits through paid time off or some other means. 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 City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy.

The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The City records a liability for accumulated unused sick leave for employees after ten years of service.

**L. Accrued Liabilities and Long-Term Obligations**

The City reports all payables, accrued liabilities, and long-term obligations in the government-wide financial statements and it reports all payables, accrued liabilities, and long-term obligations payable from proprietary funds in the proprietary fund financial statements.

In general, the City reports governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, as obligations of the funds. However compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that these liabilities come due for payment during the current year. The City recognizes long-term loans as a liability in the governmental fund financial statements when due.

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2009*

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Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
Compensated Absences	The fund from which the employee's salary is paid.
Vehicle Loans	Street Fund, Fire Levy Fund, Garbage Fund
Revenue Bonds	Water Fund and Sewer Fund
OWDA Loans	Water Fund and Sewer Fund
OPWC Loans	Water Fund and Sewer Fund
Safe Water Loans	Water Fund
General Obligation Bonds	Sewer Fund
CDBG Loans	CDBG Revolving Loan Fund

**M. Fund Balance Reserves**

The City reserves those portions of fund balance which are legally segregated for specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for loans receivable and endowments.

**N. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the constitutional provisions or through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Net assets restricted for other purposes include activities related to parks and recreation, cemetery services, and health services.

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

**O. Interfund Transactions**

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Transfers within governmental activities are eliminated.

Internal allocations of overhead expenses from one program to another or within the same program are eliminated on the Statement of Activities. Payments for interfund 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 fund. Flows of cash or goods from one fund to another without a requirement for repayment should be reported as internal transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the fund financial statements.

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2009*

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P. 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.

Q. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for sewer, water, and garbage utility services. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. Revenues and expenses not meeting the definition are reported as nonoperating.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City that are either unusual in nature or infrequent in occurrence. During 2009, the City did not have any extraordinary or special items.

NOTE 3 – PRIOR PERIOD ADJUSTMENTS

During 2009 it was discovered that tax revenue was posted incorrectly in the Cemetery Fund. This had the following effects on balances as previously reported at December 31, 2008:

	General	Cemetery	Other
	Fund	Fund	Governmental
	Fund	Fund	Funds
Fund Balances as Previously Reported	\$257,489	(\$340,815)	\$1,312,720
Property tax misstatement	4,774	(13,639)	8,865
Fund Balances - December 31, 2008	<u>\$262,263</u>	<u>(\$354,454)</u>	<u>\$1,321,585</u>

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2009*

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**NOTE 4 – ACCOUNTABILITY AND COMPLIANCE**

**A. Fund Deficits**

The following funds had deficit fund balances/net assets as of December 31, 2009:

<u>Fund Type/Fund</u>	
General Fund	\$190,587
<u>Special Revenue:</u>	
Fire Levy	90,648
Street	130,322
Cemetery	483,612
Recreation	18,820
County Sales Tax	250
Railroad Depot	7,625
Swimming Pool	38,036
<u>Enterprise:</u>	
Garbage	265,753

These deficits are due to negative cash balances, combined with adjustments for accrued liabilities. The General Fund is liable for any deficits in the special revenue funds.

**B. Legal Compliance**

Ohio Rev. Code Section 5705.10(H) states that money paid into a fund must be used only for the purpose for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

The following City funds had negative cash fund balances at December 31, 2009:

	Fund
Fund	Balance
General Fund	(\$227,910)
Fire Fund	(58,717)
Street Fund	(202,677)
Cemetery Fund	(480,959)
Recreation Fund	(24,002)
Railroad Depot Fund	(8,277)
Water Fund	(644,584)
Sewer Fund	(500,932)
Garbage Fund	(210,067)
Pool Fund	(38,775)

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2009*

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Ohio Rev. Code Section 5705.36(A)(4) states that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency.

Appropriations were greater than actual resources at December 31, 2009:

Fund	Actual Resources	Appropriation Authority	Actual Variance
Fire Fund	\$206,974	\$273,748	(\$66,774)
Street Fund	177,096	313,019	(135,923)
Cemetery Fund	(286,492)	166,614	(453,106)
County Sales Tax Fund	211,283	267,600	(56,317)
Housing Preservation Fund	285,676	447,000	(161,324)
Water Fund	939,743	1,526,053	(586,310)
Sewer Fund	324,360	827,138	(502,778)
Garbage Fund	122,115	384,741	(262,626)

Ohio Rev. Code Section 5705.39 provides in part that total appropriations from each fund shall not exceed the total estimated resources. No appropriation measure is effective until the County Auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

Fund	Estimated Resources	Appropriation Authority	Actual Variance
Fire Fund	\$222,452	\$273,748	(\$51,296)
Street Fund	200,081	313,019	(112,938)
Cemetery Fund	(247,847)	166,614	(414,461)
County Sales Tax Fund	233,545	267,600	(34,055)
Water Fund	1,125,838	1,526,053	(400,215)
North Capital Water Fund	0	44,000	(44,000)
Sewer Fund	518,199	827,138	(308,939)
North Capital Sewer Fund	0	179,000	(179,000)
Garbage Fund	227,233	384,741	(157,508)

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2009*

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Ohio Rev. Code Section 5705.41(B) prohibits subdivisions or taxing authorities from expending money unless it has been appropriated as provided in such chapter.

At December 31, 2009, expenditures exceeded appropriations as follows:

Fund	Appropriation Authority	Actual Expenditures	Actual Variance
General Fund	\$1,787,428	\$2,140,637	(\$353,209)
Fire Fund	273,748	319,593	(45,845)
Street Fund	313,019	379,773	(66,754)
Cemetery Fund	166,614	194,467	(27,853)
Water Fund	1,526,053	1,694,294	(168,241)
Sewer Fund	827,138	886,619	(59,481)
North Capital Sewer Fund	179,000	182,132	(3,132)
Garbage Fund	384,741	436,511	(51,770)

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

Disbursements for 2009 were not always properly encumbered at time of commitment.

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING**

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

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

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. Prepaid items are reported on the balance sheet (GAAP basis), but not on the budgetary basis.

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



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Net Change in Fund Balances

	General Fund	Street Fund	Cemetery Fund
GAAP Basis	(\$452,850)	(\$39,594)	(\$129,158)
Net Adjustment for Revenue Accruals	(16,943)	(71,538)	262
Net Adjustment for Expenditure Accruals	298,266	34,496	959
Prepaid Items Beginning of Year	7,929	1,128	0
Encumbrances	(228,536)	(27,994)	(15,175)
Budget Basis	<u>(\$392,134)</u>	<u>(\$103,502)</u>	<u>(\$143,112)</u>

**NOTE 6 - DEPOSITS AND INVESTMENTS**

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City 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 Council 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.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the finance director by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may 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, and Government National Mortgage Association and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
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- agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
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 describe in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
  7. The State Treasurer's investment pool (STAROhio);
  8. Securities lending agreements in which the City lends securities and the eligible institution agrees to simultaneously exchange similar securities or cash, equal value for equal value;
  9. Up to twenty-five percent of the City's average portfolio in either of the following:
    - a. commercial paper notes in entities incorporated under the laws of Ohio or any other State that have assets exceeding five hundred million dollars rated at the time of purchase, which are rated in the highest qualification established by two nationally recognized standard rating services, which do not exceed ten percent of the value of the outstanding commercial paper of the issuing corporation and which mature within 270 days after purchase.
    - b. bankers acceptances eligible for purchase by the federal reserve system and which mature within 180 days after purchase;
  10. Fifteen percent of the City's average portfolio in notes issued by U.S. corporations or by depository institutions that are doing business under authority granted by the U.S. provided that the notes are rated in the second highest or higher category by at least two nationally recognized standard rating services at the time of purchase and the notes mature within two years from the date of purchase;
  11. No-load money market mutual funds rated in the highest category at the time of purchase by at least one nationally recognized standard rating service consisting exclusively of obligations guaranteed by the United States, securities issued by a federal government agency or instrumentality, and/or highly rated commercial paper; and,
  12. One percent of the City's average portfolio in debt interests rated at the time of purchase in the three highest categories by two nationally recognized standard rating services and issued by foreign nations diplomatically recognized by the United States government.

Repurchase agreements, investments in derivatives, and investments in stripped principal or interest obligations that are not issued or guaranteed by the United States, are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Other than corporate notes, commercial paper, and bankers' acceptances, an investment must mature within five years from the date of settlement unless matched to a specific obligation or debt of the City. Investments

**City of Wellston, Ohio**  
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must be purchased with the expectation that they will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, the carrying amount of the City's deposits was \$2,971,697 and the bank balance was \$3,068,855. Of the bank balance, \$771,913 was covered by Federal depository insurance and \$2,296,942 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

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

NOTE 7 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2009 for real and public utility property taxes represents collections of 2008 taxes. Property tax payments received during 2009 for tangible personal property (other than public utility property) is for 2009 taxes.

2009 real property taxes are levied after October 1, 2009, on assessed value as of January 1, 2009, the lien date. Assessed values are established by State law at 35 percent of the appraised value. 2009 real property taxes are collected in and intended to finance 2010.

Real property taxes are payable annually and 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 later payment dates to be established.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2009 public utility property taxes became a lien December 31, 2008, are levied after October 1, 2009, and are collected in 2010 with real property taxes.

Tangible personal property tax revenue received during 2009 (other than public utility property tax) represents the collection of 2009 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in 2009 were levied after October 1, 2008, on the value as of December 31, 2008.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; paid semi-annually, the first payment is due April 30, with the remainder payable at September 20.

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
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The full tax rate for all City operations for the year ended December 31, 2009, was \$8.70 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2009 property tax receipts were based are as follows:

Real Property	\$45,838,000
Public Utility Real and Tangible Personal Property	<u>19,800,750</u>
Total Assessed Value	<u><u>\$65,638,750</u></u>

The County Treasurer collects property taxes on behalf of Jackson County, including the City of Wellston. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2009 and for which there is an enforceable legal claim. The entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2009 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

**NOTE 8 - INCOME TAX**

The City levies a municipal income tax of one percent on substantially all income earned within the City. In addition, the residents of the City are required to pay income tax on income earned outside of the City; however, the City allows a credit for income taxes paid to another municipality.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the Regional Income Tax Agency (RITA, the City's third party administrator) quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration semi-annually.

Income tax proceeds are to be used for the purposes of general municipal operations, maintenance of facilities, new equipment, extension and enlargement of municipal services and facilities and capital improvements of the City of Wellston. In 2009, all proceeds were receipted into the General Fund.

**NOTE 9 - RECEIVABLES**

Receivables at December 31, 2009, consisted primarily of taxes; loans; interfund receivables; intergovernmental receivables arising from grants, entitlements, and shared revenues; and utility accounts. All receivables are considered fully collectible. Delinquent utility accounts receivable (billings for user charged services) are certified and collected as special assessments, subject to foreclosure for nonpayment. The financial statements reflect loans receivable of \$212,449 for principal owed to the City for CDBG and UDAG revolving loan monies loaned to businesses for improvement and expansion efforts. All receivables are expected to be collected within one year, with the exception of delinquent property taxes deemed collectible by the County Auditor and recorded as a receivable in the amount of \$144,875, as well as \$193,061 of the outstanding CDBD and UDAG revolving loan receivables.

A summary of intergovernmental receivables follows:

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**Governmental Activities:**

Local Government Subsidies	\$42,510
Gasoline Tax	93,409
Motor Vehicle License Tax	28,324
Total Governmental Activities	<u>\$164,243</u>

**NOTE 10 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2009, was as follows:

	Balance 12/31/2008	Additions	Reductions	Balance 12/31/2009
<b><u>Governmental Activities:</u></b>				
Non-Depreciable Capital Assets:				
Land	\$103,550	\$0	\$0	\$103,550
Land Improvements	81,141	0	0	81,141
Construction in Progress	36,548	11,178	0	47,726
Total Non-Depreciable Capital Assets	<u>221,239</u>	<u>11,178</u>	<u>0</u>	<u>232,417</u>
Depreciable Capital Assets:				
Land Improvements	27,579	0	0	27,579
Buildings and Improvements	1,016,371	0	0	1,016,371
Equipment	181,151	0	0	181,151
Infrastructure	576,355	0	0	576,355
Vehicles	1,436,827	0	0	1,436,827
Total Depreciable Capital Assets	<u>3,238,283</u>	<u>0</u>	<u>0</u>	<u>3,238,283</u>
Accumulated Depreciation:				
Land Improvements	(689)	(1,379)	0	(2,068)
Buildings and Improvements	(430,364)	(23,283)	0	(453,647)
Equipment	(143,421)	(6,104)	0	(149,525)
Infrastructure	(115,948)	(33,307)	0	(149,255)
Vehicles	(688,354)	(63,140)	0	(751,494)
Total Accumulated Depreciation	<u>(1,378,776)</u>	<u>(127,213) *</u>	<u>0</u>	<u>(1,505,989)</u>
Total Depreciable Capital Assets, Net	<u>1,859,507</u>	<u>(127,213)</u>	<u>0</u>	<u>1,732,294</u>
Governmental Activities Capital Assets, Net	<u>\$2,080,746</u>	<u>(\$116,035)</u>	<u>\$0</u>	<u>\$1,964,711</u>

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

**Governmental Activities:**

Security of Persons and Property	\$50,382
Transportation	49,278
Leisure Time Activities	3,623
Public Health Services	2,567
Community Environment	21,363
Total Depreciation Expense	<u>\$127,213</u>

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
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	Balance 12/31/2008	Additions	Reductions	Balance 12/31/2009
<b><u>Business - Type Activities:</u></b>				
Non Depreciable Capital Assets:				
Construction in Progress	\$0	\$124,372	\$0	\$124,372
Total Non Depreciable Capital Assets	<u>0</u>	<u>124,372</u>	<u>0</u>	<u>124,372</u>
Depreciable Capital Assets:				
Buildings and Improvements	9,973,756	0	0	9,973,756
Equipment	514,110	0	0	514,110
Infrastructure	3,952,472	295,769	0	4,248,241
Vehicles	589,269	0	0	589,269
Total Depreciable Capital Assets	<u>15,029,607</u>	<u>295,769</u>	<u>0</u>	<u>15,325,376</u>
Accumulated Depreciation:				
Buildings and Improvements	(3,698,771)	(249,343)	0	(3,948,114)
Equipment	(248,523)	(30,011)	0	(278,534)
Infrastructure	(874,264)	(54,486)	0	(928,750)
Vehicles	(511,590)	(25,117)	0	(536,707)
Total Accumulated Depreciation	<u>(5,333,148)</u>	<u>(358,957)</u>	<u>0</u>	<u>(5,692,105)</u>
Total Depreciable Capital Assets, Net	<u>9,696,459</u>	<u>(63,188)</u>	<u>0</u>	<u>9,633,271</u>
Business - Type Activities				
Capital Assets, Net	<u>\$9,696,459</u>	<u>\$61,184</u>	<u>\$0</u>	<u>\$9,757,643</u>

**NOTE 11 - DEFINED BENEFIT PENSION PLANS**

**A. Ohio Public Employees Retirement System**

Plan Description – The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability and survivor benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2009, members in state and local classifications contributed 10.0 percent of covered payroll while public safety and law enforcement members contributed 10.1 percent.

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
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The City's 2009 contribution rate was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.63 percent of covered payroll. For the period January 1 through March 31, a portion of the City's contribution equal to 7.0 percent of covered payroll was allocated to fund the post-employment health care plan; for the period April 1 through December 31, 2009 this amount was decreased to 5.5 percent. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate for the City of 14.0 percent, except for public safety and law enforcement, where the maximum employer contribution rate is 18.1 percent.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2009, 2008, and 2007 were \$127,735, \$100,099, and \$114,178, respectively; 75.09 percent has been contributed for 2009 and 100 percent for 2008 and 2007. Contributions to the Member-Directed Plan for 2009 were \$4,262 made by the City and \$3,044 made by plan members.

**B. Ohio Police and Fire Pension Fund**

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – Plan members are required to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters. The City's contributions to OP&F for police and firefighters were \$61,354 and \$21,405 for the year ended December 31, 2009, \$58,535 and \$23,131 for the year ended December 31, 2008, and \$56,750 and \$21,016 for the year ended December 31, 2007. 29.33 percent for police and 33.46 percent for firefighters has been contributed for 2009. The full amount has been contributed for 2008 and 2007.

**NOTE 12 - POSTEMPLOYMENT BENEFITS**

**A. Ohio Public Employees Retirement System**

Plan Description – Ohio Public Employees Retirement System (OPERS) maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not require, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

**City of Wellston, Ohio**  
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Funding Policy – The post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). State Statute requires that public employers fund post-employment health care through contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2009, state and local employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 17.63 percent. Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The amount of employer contributions which were allocated to fund post-employment health care was 7.0 percent from January 1 through March 31, 2009, and 5.5 percent from April 1 through December 31, 2009.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

The City’s contributions allocated to fund post-employment health care benefits for the years ended December 31, 2009, 2008, and 2007 were \$92,362, \$100,099, and \$75,207, respectively; 75.09 percent has been contributed for 2009 and 100 percent for 2008 and 2007.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

**B. Ohio Police and Fire Pension Fund**

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multiple-employer defined post-employment health care plan administered by OP&F. OP&F provides health care benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium reimbursement and long-term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.



**City of Wellston, Ohio**  
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Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24.0 percent of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of covered payroll for police employer units and 24.0 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2009, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$32,482 and \$8,367 for the year ended December 31, 2009, \$30,989 and \$9,051 for the year ended December 31, 2008, and \$30,044 and \$8,224 for the year ended December 31, 2007. 29.33 percent has been contributed for police and 33.46 percent has been contributed for firefighters for 2009. The full amount has been contributed for 2008 and 2007.

**NOTE 13 – OTHER EMPLOYEE BENEFITS**

**A. Deferred Compensation Plans**

City employees and elected officials participate in a statewide deferred compensation plan 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 to employees until termination, retirement, death, or unforeseeable emergency.

**B. Employee Insurance Benefits**

The City provides \$75,000 in life insurance and accidental death and dismemberment insurance through Sun Life to its full-time employees and part-time employees working a minimum of twenty hours per week.

The City provides comprehensive major medical insurance through Anthem Blue Cross and Blue Shield. The total monthly premium for single coverage is \$499.46; for an employee with one child coverage is \$843.11; for an employee and spouse coverage is \$1,097.85; and for family coverage is \$1,541.85. The City pays 100 percent of premiums for elected officials and 90 percent of premiums for all other employees. Premiums are paid from the same funds that pay the employees' salaries.

**City of Wellston, Ohio**  
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C. Compensated Absences

Vacation leave is earned at varying rates based upon length of service. A maximum number of vacation hours may be accumulated based on length of service. Any unused vacation exceeding the maximum allowance is eliminated from the employee's leave balance. At the time of termination of employment or death, an employee (or his estate) is paid for his unused vacation leave.

Sick leave is earned at the rate of three and seven tenths hours per eighty hours of service and can be accumulated without limit. In the case of death or retirement of an employee who has five years of service, an employee or his estate is paid for one-half of his accumulated sick leave up to a maximum payment equal to thirty days for police and fire personnel, and forty-five days for other city employees.

NOTE 14 - RISK MANAGEMENT

The City 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 City has addressed these various types of risks by purchasing comprehensive insurance through commercial carriers.

The types of coverage that the City has with commercial carriers are:

<u>Type of Coverage</u>	<u>Limit</u>	<u>Aggregate Limit</u>
General Liability	\$1,000,000 Per Occurrence	\$1,000,000
Public Officials Liability	1,000,000 Per Occurrence	1,000,000
Auto Liability	1,000,000 Per Occurrence	
Law Enforcement Professional Liability	1,000,000 Per Occurrence	1,000,000
Employee Dishonesty	1,000,000 Per Occurrence	1,000,000
Property Damage	24,850,099	

Settled claims have not exceeded their commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from the prior year.

For 2009, the City paid the state workers' compensation system a premium based on a rate per \$100 of salaries. This rate is calculated based on accidents, history, and administrative costs. The participation in this state mandated insurance fund allows the City to transfer all risk associated with workers compensation.

**City of Wellston, Ohio**  
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**NOTE 15 - LONG-TERM OBLIGATIONS**

Changes in the City's long-term obligations during 2009 consist of the following:

	Outstanding 12/31/2008	Additions	Reductions	Outstanding 12/31/2009	Amounts Due Within One Year
<b><u>Governmental Activities:</u></b>					
Fire Trucks Loan - 2001 - \$221,000 - 6.04%	\$162,387	\$0	\$9,527	\$152,860	\$9,567
Street Sweeper Loan - 2004 - \$102,561 - 3.4%	35,912	0	17,654	18,258	18,258
Fire Trucks Loan - 2004 - \$413,052 - 3%	186,180	0	60,486	125,694	62,316
Jackson County Commissioners CDBG Loan - 2003 - \$50,000 - 0%	31,667	0	3,333	28,334	4,999
Total Loans	416,146	0	91,000	325,146	95,140
Compensated Absences Payable	62,855	28,997	5,282	86,570	45,935
Total Governmental Activities	<u>\$479,001</u>	<u>\$28,997</u>	<u>\$96,282</u>	<u>\$411,716</u>	<u>\$141,075</u>
<b><u>Business-Type Activities:</u></b>					
<b><u>General Obligation Bonds</u></b>					
Sewer Farmers Home Administration - 1993 - 5.00%	\$648,000	\$0	\$15,000	\$633,000	\$15,000
<b><u>Revenue Bonds</u></b>					
Water System Improvement - 2002 - 4.10%	71,429	0	71,429	0	0
Sewer Farmers Home Administration - 1993 - 5.00%	1,623,000	0	36,000	1,587,000	38,000
Total Revenue Bonds Payable	<u>1,694,429</u>	<u>0</u>	<u>107,429</u>	<u>1,587,000</u>	<u>38,000</u>
<b><u>OPWC Loans</u></b>					
Water Line Improvements - 1996 - 0.00%	227,500	0	16,250	211,250	48,750
Water System Rennovations - 1992 - 0.00%	11,974	0	1,996	9,978	5,988
South Water Sludge Basin - 2009 - 0.00%	0	75,259	0	75,259	0
Green Acres Sewer Line - 2000 - 0.00%	34,868	0	1,516	33,352	4,548
Total OPWC Loans Payable	<u>274,342</u>	<u>75,259</u>	<u>19,762</u>	<u>329,839</u>	<u>59,286</u>
<b><u>OWDA Loans</u></b>					
Water Line Improvement - 1995 - 2.00%	499,851	0	79,240	420,611	80,826
Sewer Fund - 1996 - 2.20%	397,206	0	49,271	347,935	50,360
Sewer Fund - 2001 - 2.20%	669,440	0	77,414	592,026	79,127
Total OWDA Loans Payable	<u>1,566,497</u>	<u>0</u>	<u>205,925</u>	<u>1,360,572</u>	<u>210,313</u>
<b><u>Other Loans</u></b>					
WSOS Community Action Safe Water - 2002 - 3.00%	54,997	0	19,950	35,047	13,765
Garbage Truck First National Wellston - 2004 - 3.25%	32,973	0	17,742	15,231	15,231
Total Other Loans Payable	<u>87,970</u>	<u>0</u>	<u>37,692</u>	<u>50,278</u>	<u>28,996</u>
Compensated Absences Payable	59,260	118,320	13,891	163,689	76,320
Total Business-Type Activities	<u>\$4,330,498</u>	<u>\$193,579</u>	<u>\$399,699</u>	<u>\$4,124,378</u>	<u>\$427,915</u>

Compensated absences will be paid from the funds from which employees are paid, which include the General Fund, the Fire, Street, Cemetery, Recreation, and Swimming Pool Special Revenue Funds, and the Water, Sewer, and Garbage Enterprise Funds.

As of December 31, 2009, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$6,566,923, with an unvoted debt margin of \$3,284,985.

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2009*

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**Governmental Activities:**

The fire truck loan issued in 2001 for \$221,000 matures in 2020 and will be paid from the Fire Levy Special Revenue Fund.

The Street Sweeper Loan obtained in 2004 was for \$102,561 and matures in 2010. The loan will be paid from the Street Fund.

The fire trucks loan obtained on January 14, 2004, was for \$413,052, and matures on November 11, 2011. This obligation will be paid from the General Fund.

In 2003, the City borrowed \$50,000 from the Jackson County Community Development Block Grant Revolving Loan Fund. Proceeds were used for the City's portion of a paving project conducted by the County. Repayment will be from the City's Community Development Block Grant Revolving Loan Special Revenue Fund. The loan will be paid off in 2017.

The annual requirements to retire all governmental loans outstanding as of December 31, 2009, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2010	\$95,140	\$13,903
2011	77,460	10,483
2012	14,729	7,935
2013	15,459	7,205
2014	16,213	6,451
2015-2019	87,442	19,213
2020	18,703	776
	<u>\$325,146</u>	<u>\$65,966</u>

**Business-Type Activities:**

***General Obligation Bonds***

In 1993, the City issued Farmers Home Administration General Obligation Bonds for the Sewer Fund in the amount of \$798,000, for improvements to the City's sewer system. The bonds mature in 2032 and will be repaid through user fees.

Principal and interest requirements to retire the City's general obligation bonds outstanding at December 31, 2009 are:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2010	\$15,000	\$31,650
2011	16,000	30,900
2012	17,000	30,100
2013	18,000	29,250
2014	19,000	28,350
2015-2019	107,000	126,950
2020-2024	137,000	97,200
2025-2029	176,000	59,300
2030-2032	128,000	13,050
	<u>\$633,000</u>	<u>\$446,750</u>

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2009*

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**Revenue Bonds**

The 2002, \$500,000 Water Fund Revenue Bonds were issued for the purchase and installation of water meters. Repayments were made from user fees. The bond matured in 2009. Proceeds from these bonds provided financing for a water meter replacement project.

The City issued \$2,000,000 in Sewer Fund Revenue Bonds in 1993 for improvements to the City's sewer system. The bonds will mature in 2032. Proceeds from these bonds provided financing for a sewer improvement projects.

Principal and interest requirements to retire the City's revenue bonds outstanding at December 31, 2009 are:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2010	\$38,000	\$79,350
2011	40,000	77,450
2012	42,000	75,450
2013	44,000	73,350
2014	47,000	71,150
2015-2019	270,000	318,300
2020-2024	344,000	243,850
2025-2029	441,000	148,500
2030-2032	321,000	32,600
	<u>\$1,587,000</u>	<u>\$1,120,000</u>

**OPWC Loans**

Ohio Public Works Commission (OPWC) loans were obtained in 1992 and 1996 in the amounts of \$79,857 and \$650,000, respectively, for water line improvements and water system renovations. Repayment will be made from user fees. The loans will be paid off in 2012 and 2016, respectively.

An OPWC loan was obtained in 2009 in the amount of \$75,259 for South Water Plant Improvements. Repayment will be made from user fees. The loan will be paid off in 2030.

An OPWC loan was obtained in 2000 in the amount of \$60,640 for the rehabilitation of the Green Acres sewer line. Repayment will be made from user fees. The loan will be paid off in 2020.

Principal requirements to retire the City's OPWC loans outstanding at December 31, 2009 are:

<u>Year</u>	<u>Principal</u>
2010	\$59,286
2011	43,286
2012	39,295
2013	39,295
2014	39,295
2015-2019	66,475
2020-2024	20,331
2025-2029	18,815
2030	3,761
Total	<u>\$329,839</u>

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2009*

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***OWDA Loans***

An Ohio Water Development Authority (OWDA) loan, maturing in 2014, was obtained in 1995 in the amount of \$1,113,654 for water line improvements. Repayment will be made from user fees.

OWDA loans were obtained in 1996 and 2001 in the amounts of \$930,173 and \$1,221,145, respectively, for sewer upgrades. Repayment will be made from user fees and will be paid off in 2011 and 2016, respectively.

Principal and interest requirements to retire the City's enterprise OWDA loans outstanding at December 31, 2009 are as follow:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2010	\$210,313	\$28,382
2011	214,792	23,903
2012	219,371	19,325
2013	224,043	14,652
2014	228,809	9,888
2015-2016	263,244	6,802
Total	<u>\$1,360,572</u>	<u>\$102,952</u>

***Other Loans***

The City borrowed \$126,250 from the WSOS Community Action Commission's Safe Water Loan program in 2002. Proceeds were used to increase the capacity of the City's Cherrington Hill water storage tank. Repayments will be made from user fees. The loan will be repaid by 2012.

The garbage truck loan was obtained in 2004 for \$101,000 and matures in 2010. Payments will be made from the Garbage Fund. Repayment will be made through user fees.

Principal and interest requirements to retire the City's other loans outstanding at December 31, 2009, were:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2010	\$28,996	\$1,180
2011	14,181	535
2012	7,101	107
Total	<u>\$50,278</u>	<u>\$1,822</u>

***Pledged Revenues***

The City has pledged future customer water revenues, net of specified operating expenses, to repay a \$1,459,117 Ohio Water Development Authority loan issued in 1995. The loan is payable solely from customer net revenues. The final loan payment will be in 2014. Net revenues include all revenues received by the water utility less all operating expenses other than depreciation expense. Annual principal and interest payments on the loan are expected to require 65 percent of net revenues. The total principal and interest remaining to be paid on the loan is \$446,190. Principal and interest payments for the current year were \$89,236, net revenues were \$160,845 and total revenues were \$1,637,004.

The City has pledged future customer sewer revenues, net of specified operating expenses, to repay \$2,000,000 in revenue bonds issued in 1993, as well as a \$930,173 Ohio Water Development Authority loan issued in 1996 and a \$1,477,554 Ohio Water Development Authority loan issued in 2001. The

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2009*

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bonds and loan are payable solely from customer net revenues and are payable through 2032. Net revenues include all revenues received by the sewer utility less all operating expenses other than depreciation expense. Annual principal and interest payments on the bonds and loan are expected to require 48 percent of net revenues. The total principal and interest remaining to be paid on the bonds and loan is \$3,726,187. Principal and interest payments for the current year were \$264,353, net revenues were \$544,941 and total revenues were \$1,262,705.

**NOTE 16 - CONTINGENT LIABILITIES**

**A. Litigation**

The City is not currently party to legal proceedings.

**B. Federal and State Grants**

For the period January 1, 2009 to December 31, 2009, the City received federal and state grants for specific purposes that are subject to review and audit by grantor agencies or their designee. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any, would be immaterial.

**NOTE 17 - INTERFUND BALANCES**

Interfund Receivable and Interfund Payable balances at December 31, 2009, consist of the following:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General	\$1,187,070	\$1,186,444
<u>Special Revenue Funds:</u>		
Fire Levy	0	18,005
Street	0	174,683
Cemetery	0	465,784
Railroad Depot	0	6,732
Recreation	0	9,526
Swimming Pool	0	33,793
Total Special Revenue Funds	<u>0</u>	<u>708,523</u>
Permanent Investment Capital Improvement Fund	1,186,444	<u>0</u>
<u>Enterprise Funds:</u>		
Water	0	311,981
Garbage	0	166,566
Total Enterprise Funds	<u>0</u>	<u>478,547</u>
Total	<u>\$2,373,514</u>	<u>\$2,373,514</u>

The advances from the General Fund to Special Revenue and Enterprise Funds are due to negative cash balances at year end. The General Fund did not have enough cash at year end to cover all negative cash balances, so an advance was made to the General Fund from the Permanent Investment Capital Projects Fund. These advances will all be repaid in 2009.

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2009*

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**NOTE 18 – RELATED PARTY TRANSACTIONS**

During 2009, the City acquired various services from Clark’s Garage for a total of \$46,246. This local business is owned by Council Member Tom Clark.

In 2006, Patrick West, former Downtown Revitalization Director, acquired a loan through the City’s revolving loan program in the amount of \$15,000 for his personal business while in the position of Downtown Revitalization Director. The loan was granted for a seven year term at an interest rate of 3.25%. There were two payments on this loan in 2009, totaling \$400. The balance on this loan as of December 31, 2009, is \$9,920 and it is currently in default. Prior to the 2009 payments, the last payment made on this loan was November 2007.

**NOTE 19 – CONTRACTUAL COMMITMENTS**

At December 31, 2009, the City had the following contractual commitments:

Project	Fund	Purchase Commitments	Amount Paid as of 12/31/2009	Amount Remaining on Contracts
Veterans' Park Improvements	General	\$55,795	\$47,726	\$8,069

**NOTE 20 – FISCAL EMERGENCY DECLARATION**

The Auditor of State’s office placed the City in fiscal emergency on October 1, 2009 in accordance with Section 118.03, Ohio Revised Code. The declaration resulted in the establishment of a financial planning and supervision commission. The Commission is comprised of a representative of the Office of Budget and Management, a representative of the Treasurer of State, the city mayor, the president of city council, and three individuals appointed by the Governor who are residents of the City and meet certain criteria.

In accordance with Section 118.06 of the Ohio Revised Code, the City is required to submit to the Commission a financial recovery plan for the City which outlines the measures to be taken to eliminate the fiscal emergency conditions. The City adopted its initial financial recovery plan on March 19, 2010.





# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

City of Wellston  
Jackson County  
203 East Broadway Street  
Wellston, Ohio 45692

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wellston, Jackson County, Ohio (the City) as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 26, 2011, wherein we noted the City is experiencing financial difficulties and is in fiscal emergency. 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 the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that material financial statement misstatements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that we consider significant deficiencies in internal control over financial reporting. We consider findings 2009-006 through 2009-008 to be significant deficiencies. 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.

### **Compliance and Other Matters**

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2009-001 through 2009-007.

We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated May 26, 2011.

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the City's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, the City Council and others within the City. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

**Dave Yost**  
Auditor of State

May 26, 2011

**CITY OF WELLSTON  
JACKSON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2009**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
--

**FINDING NUMBER 2009-001**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.10(H) states that money paid into a fund must be used only for the purpose for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

The following City funds had negative cash fund balances at December 31, 2009:

Fund	Fund Balance
General Fund	(\$227,910)
Fire Fund	(58,717)
Street Fund	(202,677)
Cemetery Fund	(480,959)
Recreation Fund	(24,002)
Railroad Depot Fund	(8,277)
Water Fund	(644,584)
Sewer Fund	(500,932)
Garbage Fund	(210,067)
Pool Fund	(38,775)

This is a result of overspending by the City and was due to a lack of budgetary oversight and control by management.

We recommend the City take the necessary steps to eliminate negative fund balances and only post disbursements into a fund for the purposes for which such fund has been established. We also recommend the City establish a plan to curtail unnecessary spending.

**Officials Response:** We have a recovery plan in place.

**FINDING NUMBER 2009-002**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.36(A)(4) states that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency.

**CITY OF WELLSTON  
JACKSON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2009  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2009-002 (Continued)**

**Noncompliance Citation - Ohio Rev. Code Section 5705.36(A)(4) (Continued)**

Appropriations were greater than actual resources at December 31, 2009, in the following funds selected for testing:

Fund	Actual Resources	Appropriation Authority	Actual Variance
Fire Fund	\$206,974	\$273,748	(\$66,774)
Street Fund	177,096	313,019	(135,923)
Cemetery Fund	(286,492)	166,614	(453,106)
County Sales Tax Fund	211,283	267,600	(56,317)
Housing Preservation Fund	285,676	447,000	(161,324)
Water Fund	939,743	1,526,053	(586,310)
Sewer Fund	324,360	827,138	(502,778)
Garbage Fund	122,115	384,741	(262,626)

This caused the City to overspend resulting in deficit fund balances.

We recommend the City monitor estimated and actual revenues for all funds on a regular basis. In the situation where appropriations exceed actual resources, the City should adjust appropriations accordingly.

**Officials Response:** Certificates were filed in 2010. We began to monitor revenue and expenses more closely.

**FINDING NUMBER 2009-003**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.39 provides in part that total appropriations from each fund shall not exceed the total estimated resources. No appropriation measure is effective until the County Auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

Per review of the City's minutes, the City Council adopted Ordinance No. 4040, Adopting an Appropriation Budget for the City, on January 7, 2009, for the fiscal year 2009. However, these appropriations filed with the County Auditor were greater than estimated resources in the following funds selected for testing:

**CITY OF WELLSTON  
JACKSON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2009  
(Continued)**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

**FINDING NUMBER 2009-003 (Continued)**

**Noncompliance Citation - Ohio Rev. Code Section 5705.39 (Continued)**

Fund	Estimated Resources	Appropriation Authority	Actual Variance
Fire Fund	\$222,452	\$273,748	(\$51,296)
Street Fund	200,081	313,019	(112,938)
Cemetery Fund	(247,847)	166,614	(414,461)
County Sales Tax Fund	233,545	267,600	(34,055)
Water Fund	1,125,838	1,526,053	(400,215)
North Capital Water Fund	0	44,000	(44,000)
Sewer Fund	518,199	827,138	(308,939)
North Capital Sewer Fund	0	179,000	(179,000)
Garbage Fund	227,233	384,741	(157,508)

The County Auditor was unable to file a certificate that the total appropriations from each fund did not exceed the total official estimate of resources. This could cause the City to spend more money than is available to spend.

We recommend the City ensure that appropriations do not exceed estimated resources.

**Officials Response:** We are monitoring expenses and revenues and filing certificates.

**FINDING NUMBER 2009-004**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.41(B) prohibits subdivisions or taxing authorities from expending money unless it has been appropriated as provided in such chapter.

At December 31, 2009, expenditures exceeded appropriations in funds selected for testing as follows:

Fund	Appropriation Authority	Actual Expenditures	Actual Variance
General Fund	\$1,787,428	\$2,140,637	(\$353,209)
Fire Fund	273,748	319,593	(45,845)
Street Fund	313,019	379,773	(66,754)
Cemetery Fund	166,614	194,467	(27,853)
Water Fund	1,526,053	1,694,294	(168,241)
Sewer Fund	827,138	886,619	(59,481)
North Capital Sewer Fund	179,000	182,132	(3,132)
Garbage Fund	384,741	436,511	(51,770)

**CITY OF WELLSTON  
JACKSON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2009  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2009-004 (Continued)**

**Noncompliance Citation - Ohio Rev. Code Section 5705.41(B) (Continued)**

The practice of allowing expenditures to exceed appropriations has resulted in negative fund balances for the City.

We recommend the City Auditor compare expenditures to appropriations on a monthly basis. If appropriations in addition to those already adopted will be needed, the City Council should take the necessary steps to adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations or reduce spending. The City Auditor should deny requests for payment when appropriations are not available.

**Officials Response:** We are monitoring all funds on a daily basis.

**FINDING NUMBER 2009-005**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" Certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the City can authorize the drawing of a warrant for the payment of the amount due. The City has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the City.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

**CITY OF WELLSTON  
JACKSON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2009  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
--

**FINDING NUMBER 2009-005 (Continued)**

**Noncompliance Citation - Ohio Rev. Code Section 5705.41(D)(1) (Continued)**

3. Super Blanket Certificate – The City may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the clerk for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

During testing we noted seventy-three percent of disbursements tested for 2009 were not properly encumbered at time of commitment. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations, we recommend the Auditor certify that the funds are or will be available prior to obligation by the City. When prior certification is not possible, "then and now" certification should be used.

We recommend the City certify purchases to which Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language Section 5705.41(D) requires to authorize disbursements. The Auditor should sign the certification at the time the City incurs a commitment, and only when the requirements of Section 5705.41(D) are satisfied.

**Officials Response:** Purchase orders, blankets and then and now certificates are issued more timely. The City purchase order form contains the language recommended.

**FINDING NUMBER 2009-006**

**Noncompliance Citation and Significant Deficiency**

City of Wellston Ordinance 3352 revising Codified Ordinance Chapter 905.08(g), states in the event the charges for utility service (water service, sewer service, garbage service) are not paid within thirty (30) days after rendition of the bill for such service, such charges shall be deemed to be delinquent. Such a delinquency shall constitute a lien upon the real estate for which such services is provided, and the City Auditor is authorized and directed to file sworn statements showing such delinquencies in the office of the Auditor of Jackson County. The filing of such statements shall be deemed notice of the said lien.

City of Wellston Ordinance 51.02(G) states that service to delinquent users shall be discontinued.

It is also the City's policy to allow delinquent customers to sign extension agreements on delinquent accounts. These agreements require the customer to pay the entire current amount due plus a portion of the past due amount each month. The agreements state water services will be disconnected for failure to pay the amount promised.

The City was carrying a total of \$385,768 in delinquent closed accounts at December 31, 2009. There was no indication of any action on the part of the City to collect these accounts during 2009 or shut off all delinquent accounts. This practice has resulted in a significant loss of revenue for the City.

**CITY OF WELLSTON  
JACKSON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2009  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2009-006 (Continued)**

**Noncompliance Citation and Significant Deficiency - City of Wellston Ordinance 3352 (Continued)**

We recommend the City act in accordance with the ordinances listed above. In particular, the City should follow Ordinance 51.02(G) regarding the termination of water service on delinquent accounts. In addition, we also recommend the Service Director and/or the City Clerk, monitor extension agreements to assure compliance with the agreement. The City should terminate service for any account not in compliance with the extension agreement. In addition, the City should follow the measures outlined in Ordinance 3352 to collect the outstanding balances on closed accounts.

**Officials Response:** A collection agency has been hired.

**FINDING NUMBER 2009-007**

**Noncompliance Citation and Significant Deficiency**

The Policies and Procedures Manual for the City of Wellston, Ohio Section 4.26(A), states that the City Clerk and staff will process utility billing adjustments and all adjustments shall only be made after approval of the Utility Review Board.

City of Wellston Ordinance 51.11 established the Water and Sewer Charges Review Board (the "Board"). Per Section (B), the purpose of the Board shall be to hear and decide appeals from any persons affected by any matter. Matter is defined for the use in this section, as any measurement, order, requirement, decision or determination made by the Water and Sewer Department relating to rates or charges for city water or sewer services. Per Section (D), all meetings of the Board shall be conducted in such open, public session as may be otherwise required by the Sunshine Law of the State of Ohio. Pursuant to Section (F), all decisions of the Board shall be subject to review at the discretion of the City Council.

City of Wellston Ordinance 51.13 established the water service termination policy. Per Ordinance 51.13 Section (E)(3)(g), the consumer or customer has the right to a hearing to contest disconnection or a refusal to reconnect service, although that request will not necessarily postpone disconnection. Per Section (F)(1), The Service Representative shall be either the City Service Director or the City Service Supervisor. The Service Representative shall be empowered and required (when good cause, within the judgment of the Service Representative, is shown) to compromise disputes as to service department requirements or payment demands; and to cancel disconnection and/ or order reconnection. The Service Representative shall strive to secure reasonable alternative methods of payment or reasonable security for payment in order to preserve utility service without discrimination.

Credit adjustments to utility accounts in 2009 totaled \$122,579. The Board of Review met three times during 2009. However, credit adjustments were noted throughout the year.

Our testing of adjustments indicated a projected error of \$51,070 of adjustments that were not supported by a work order. In addition, our testing indicated a projected error of \$91,621 of adjustments where the work order did not support the reason code in the computer system.

These practices have resulted in a significant loss of revenue for the City.



**CITY OF WELLSTON  
JACKSON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2009  
(Continued)**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

**FINDING NUMBER 2009-007 (Continued)**

**Noncompliance Citation and Significant Deficiency (Continued)**

We recommend all customer complaints be referred to the Board of Review for determination of adjustments per City Ordinance 51.11. Meetings of the Board of Review should be documented by minutes made available to the public. We also recommend the Board of Review and/ or the Service Director document approval of each adjustment by signing the work orders and the adjustment journals. In addition, any matters approved by the Service Director should also be reviewed by the Board of Review. Leak adjustments should be made to the sewer bill only. Since water was used, it should be the customer's responsibility to pay for the water. The City should implement procedures to "audit" meter readings periodically for accuracy.

**Officials Response:** A collection agency has been hired.

**FINDING NUMBER 2009-008**

**Significant Deficiency**

All local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

The City did not enter estimated resources into the accounting system. Due to budgetary information not being entered into the system, the management of the City was not able to effectively monitor and report its budget vs. actual status throughout the year.

We recommend the City accurately post to their accounting system estimated receipts as certified by the County Budget Commission. This procedure will help ensure more useful comparisons of budget vs. actual activity, as well as provide management with an accurate monitoring tool throughout the year.

**Officials Response:** We utilize our revenue audit trail to monitor revenue activity.

**CITY OF WELLSTON  
JACKSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain</b>
2008-001	Ohio Rev. Code Section 9.38 – Utility Department did not deposit utility receipts on the next business day following the day of receipt.	Yes	
2008-002	Ohio Rev. Code Section 5705.10 – Negative fund balances in several funds.	No	Not Corrected; repeated in the current audit Schedule of Findings as Finding 2009-001.
2008-003	Ohio Rev. Code Section 5705.36(A)(1) – The City did not file the certificate with the County Auditor.	No	Partially Corrected; Included in separate letter to Management
2008-004	Ohio Rev. Code Section 5705.38(A) – Appropriations were not filed with the County Auditor.	Yes	
2008-005	Ohio Rev. Code Section 5705.39 - County Auditor was not able to certify that the total appropriations from each fund didn't exceed total amount from all sources available.	No	Not Corrected; repeated in the current audit Schedule of Findings as Finding 2009-003.
2008-006	Ohio Rev. Code Section 5705.40 – No appropriation amendments were filed with the County Auditor.	No	Partially Corrected; Included in separate letter to Management
2008-007	Ohio Rev. Code Section 5705.41(B) – Expenditures exceeded appropriations in all funds.	No	Not Corrected; repeated in the current audit Schedule of Findings as Finding 2009-004.
2008-008	Ohio Rev. Code Section 5705.41(D)(1) – Failure to encumber properly.	No	Not Corrected; repeated in the current audit Schedule of Findings as Finding 2009-005.
2008-009	Noncompliance Citation and Significant Deficiency – Utility Department was not handling account adjustments in accordance with City Ordinance.	No	Not Corrected; repeated in the current audit Schedule of Findings as Finding 2009-007.
2008-010	Noncompliance Citation and Significant Deficiency – Utility Department was not handling delinquent accounts in accordance with City Ordinance.	No	Not Corrected; repeated in the current audit Schedule of Findings as Finding 2009-006.
2008-011	Significant Deficiency – City posted Taxes at net rather than gross that resulted in a material adjustment to the financial statements	No	Partially Corrected; Included in separate letter to Management

**CITY OF WELLSTON  
JACKSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2009  
(Continued)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2008-012	Significant Deficiency – Water Loss was 51.5% resulting is significant loss of revenue.	No	Included in separate letter to Management

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# Dave Yost • Auditor of State

**CITY OF WELLSTON**

**JACKSON COUNTY**

## **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 21, 2011**