



**Auditor of State
Betty Montgomery**

CITY OF WELLSTON
JACKSON COUNTY

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**Auditor of State
Betty Montgomery**

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, 2004, 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, 2004 and the respective changes in financial position and, where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2004, the City implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, Statement No. 37, *Basic Financial Statements for State and Local Governments: Omnibus*, Statement No. 38, *Certain Financial Statement Note Disclosures*, Statement No. 41, *Budgetary Comparison Schedules – Perspective Differences*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2006, 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

March 9, 2006

City of Wellston, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

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, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the transmittal letter, 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 2004 are as follows:

- The City's total net assets decreased by 3 percent, or \$280,933, from the total net assets at the beginning of the year 2004.
- At the end of the current year, the City's governmental activities reported total net assets of \$5,151,315, a decrease of \$277,246 from the prior year. Of this amount, \$219,777 is unrestricted.
- At the end of the current year, unreserved fund balance for the General Fund was \$325,198, which represents a 37 percent decrease from the prior year, and represents 14 percent of total General Fund expenditures.
- Capital assets increased \$277,344. Capital assets from governmental activities increased \$467,794 or 31 percent. Capital assets of business-type activities decreased \$190,450 or 2 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, 2004
Unaudited

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 2004?" 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 charges 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 and the Permanent Investment 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
Management's Discussion and Analysis
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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, to recover the costs of the services provided, and to cover the capital expenses associated with the related facilities. 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, much like 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 2004 compared to 2003.

Table 1
Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2004	2003	2004	2003	2004	2003
Assets						
Current and Other Assets	\$4,739,704	\$5,194,431	\$920,060	\$971,450	\$5,659,764	\$6,165,881
Capital Assets, Net	1,978,338	1,510,544	10,747,030	10,937,480	12,725,368	12,448,024
<i>Total Assets</i>	<u>6,718,042</u>	<u>6,704,975</u>	<u>11,667,090</u>	<u>11,908,930</u>	<u>18,385,132</u>	<u>18,613,905</u>
Liabilities						
Current and Other Liabilities	788,016	715,454	530,091	683,028	1,318,107	1,398,482
Noncurrent Liabilities	778,711	560,960	6,210,785	6,296,001	6,989,496	6,856,961
<i>Total Liabilities</i>	<u>1,566,727</u>	<u>1,276,414</u>	<u>6,740,876</u>	<u>6,979,029</u>	<u>8,307,603</u>	<u>8,255,443</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	1,256,634	1,007,646	4,584,929	4,438,069	5,841,563	5,445,715
Restricted	3,674,904	3,743,283	0	0	3,674,904	3,743,283
Unrestricted	219,777	677,632	341,285	491,832	561,062	1,169,464
<i>Total Net Assets</i>	<u>\$5,151,315</u>	<u>\$5,428,561</u>	<u>\$4,926,214</u>	<u>\$4,929,901</u>	<u>\$10,077,529</u>	<u>\$10,358,462</u>

City of Wellston, Ohio
Management's Discussion and Analysis
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Total governmental activities assets increased \$13,067. Governmental activities' capital assets increased \$467,794. The increase in capital assets for governmental activities is due to the purchase of new fire trucks and road improvements. The decrease in capital assets for business-type activities is due depreciation in the amount of \$381,720, offset by the purchase of a garbage truck.

Net assets of the City's governmental activities decreased \$277,246.

Table 2 shows the changes in net assets for 2004. Since this is the first year that the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Changes in Net Assets

	Governmental Activities	Business-Type Activities
	2004	2004
Revenues		
Program Revenues:		
Charges for Services	\$574,352	\$2,542,249
Operating Grants and Contributions	390,456	0
Capital Grants and Contributions	20,000	0
<i>Total Program Revenues</i>	<u>984,808</u>	<u>2,542,249</u>
General Revenues:		
Property Taxes	622,886	0
Income Taxes	599,282	0
Grants and Entitlements	785,599	0
Investment Earnings	105,937	0
Other	71,118	128,067
Total General Revenues	<u>2,184,822</u>	<u>128,067</u>
<i>Total Revenues</i>	<u>3,169,630</u>	<u>2,670,316</u>
Program Expenses		
General Government	965,988	0
Security of Persons and Property	1,285,163	0
Transportation	409,388	0
Leisure Time Activities	118,986	0
Public Health Services	159,443	0
Community Environment	480,526	0
Interest and Fiscal Charges	27,382	0
Water	0	1,232,536
Sewer	0	1,155,595
Garbage	0	285,872
<i>Total Program Expenses</i>	<u>3,446,876</u>	<u>2,674,003</u>
Decrease in Net Assets	<u>(\$277,246)</u>	<u>(\$3,687)</u>

City of Wellston, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

Governmental Activities

Grants and contributions accounted for 38 percent of total governmental revenues. Of the 38 percent, operating grants and contributions accounted for 37 percent while capital grants and contributions accounted for 1 percent. Tax revenue provided 39 percent of total governmental revenues. Of the 39 percent, 19 percent was generated from income taxes and 20 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 \$574,352, or 18 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 \$1,285,163, or 37 percent, of total expenses. General government activities utilized \$965,988, or 28 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. The net cost to the governmental activities was \$277,246.

Table 3
Program Expenses and Net Costs of Governmental Activities, by Program
For the Year Ended December 31, 2004

	Program Activity Expenses	Net Cost (Gain) of Program Activity	Net Cost (Gain) as Percentage of Total Expenses	
			Program Activity	All Program Activities
General Government	\$965,988	\$810,783	83.9%	23.5%
Security of Persons and Property	1,285,163	1,210,359	94.2%	35.1%
Transportation	409,388	54,695	13.4%	1.6%
Leisure Time Activities	118,986	25,917	21.8%	0.8%
Public Health Services	159,443	119,738	75.1%	3.5%
Community Environment	480,526	213,194	44.4%	6.2%
Interest and Fiscal Charges	27,382	27,382	100.0%	0.8%
Totals	<u>\$3,446,876</u>	<u>\$2,462,068</u>		<u>71.4%</u>

City of Wellston, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
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Business-Type Activities

The City's business-type activities are for water, sewer, and garbage services. During 2004, program expenses exceeded revenues by \$3,687.

The minimum water rate is \$5.50 per each thousand gallons of water. Sewer fees are calculated on the amount of water used. The minimum sewer rate is \$12.00 per month. Garbage fees are assessed at a flat rate of a \$11.00 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 may serve 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 2004, fund balance was \$325,198. Fund balance represents 14 percent to total General Fund expenditures.

The fund balance of the City's General Fund decreased by \$194,646 during the current fiscal year. The key factors in this decrease are a decrease in revenue of 26 percent and an increase in expenditures of 42 percent.

Other Major Governmental Fund

The fund balance of the Permanent Investment Fund at December 31, 2004 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 that may only be spent for capital improvements.

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 major enterprise funds are the Water Fund, the Sewer Fund, and the Garbage Fund. The Water Fund's net assets increased \$175,839, the Sewer Fund's net assets decreased \$141,803, and the Garbage Fund's net assets decreased \$37,723.

City of Wellston, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

General Fund Budgetary Highlights

The City made few revisions to the original appropriations approved by City Council. Overall, these changes resulted in an increase from the original budget of \$2,099,100. Debt service was not appropriated at the beginning of the year, which accounts for the majority of the \$497,485 increase in appropriations.

The General Fund budgeted revenue increased \$929,951 and was primarily the result of an increase in estimated note proceeds.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the City had \$12,725,368 invested in capital assets, net of accumulated depreciation. Table 4 shows fiscal year 2004 balances compared to 2003.

Table 4
Capital Assets at December 31, 2004 with comparative as of December 31, 2003
(Net of Depreciation)

	<u>Government Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	2004	2003	2004	2003	2004	2003
Land	\$103,550	\$103,550	\$0	\$0	\$103,550	\$103,550
Buildings	632,294	605,729	7,293,676	7,556,783	7,925,970	8,162,512
Equipment	62,711	71,745	139,786	155,162	202,497	226,907
Infrastructure	190,390	0	2,990,159	3,025,007	3,180,549	3,025,007
Vehicles	989,393	729,520	249,279	200,528	1,238,672	930,048
Construction in Progress	0	0	74,130	0	74,130	0
Totals	\$1,978,338	\$1,510,544	\$10,747,030	\$10,937,480	\$12,725,368	\$12,448,024

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

The total increase in the City's capital assets, net of accumulated depreciation, for the current year was \$277,344 or 2 percent. The increase is due to the purchase of two fire trucks and road improvements.

City of Wellston, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

Debt

As of December 31, 2004 and December 31, 2003, the City had total long-term debt of \$6,883,805 and \$7,002,309, respectively, as follows:

Table 5
Outstanding Debt
As of December 31, 2004, with comparative for December 31, 2003

	Governmental Activities		Business-Type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Revenue Bonds	\$0	\$0	\$2,109,143	\$2,209,571	\$2,109,143	\$2,209,571
General Obligation Bonds	0	0	700,000	711,000	700,000	711,000
Long-Term Loans	721,704	502,898	286,505	240,135	1,008,209	743,033
OWDA Loans	0	0	2,362,840	2,550,373	2,362,840	2,550,373
OPWC Loans	0	0	703,613	788,332	703,613	788,332
Totals	\$721,704	\$502,898	\$6,162,101	\$6,499,411	\$6,883,805	\$7,002,309

The City's overall legal debt margin was \$6,523,109. For additional information on debt, see Note 15 to the basic financial statements.

Economic Factors

- The City's income tax rate of .75 percent with a ½ percent credit for tax paid to other municipalities has not increased since the inception in 2001, but revenues are decreasing during this time of economic downturn.

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 45692.

City of Wellston, Ohio
Statement of Net Assets
December 31, 2004

	Governmental Activities	Business - Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$928,674	\$158,084	\$1,086,758
Investments	2,563,090	0	2,563,090
Accounts Receivable	0	319,651	319,651
Internal Balances	13,215	(13,215)	0
Intergovernmental Receivable	173,930	0	173,930
Income Taxes Receivable	203,835	0	203,835
Prepaid Items	48,784	21,372	70,156
Property and Other Taxes Receivable	611,222	0	611,222
Loans Receivable	196,954	233,333	430,287
Customer Deposits	0	200,835	200,835
Non-Depreciable Capital Assets	103,550	74,130	177,680
Depreciable Capital Assets, Net	1,874,788	10,672,900	12,547,688
<i>Total Assets</i>	<u>6,718,042</u>	<u>11,667,090</u>	<u>18,385,132</u>
Liabilities			
Accrued Wages and Benefits Payable	48,393	37,515	85,908
Intergovernmental Payable	149,568	118,575	268,143
Accounts Payable	43,631	53,150	96,781
Contracts Payable	0	42,470	42,470
Retainage Payable	0	1,708	1,708
Accrued Interest Payable	8,276	75,838	84,114
Deferred Revenue	538,148	0	538,148
Customer Deposits Payable	0	200,835	200,835
Long-Term Liabilities:			
Due Within One Year	136,271	464,342	600,613
Due In More Than One Year	642,440	5,746,443	6,388,883
<i>Total Liabilities</i>	<u>1,566,727</u>	<u>6,740,876</u>	<u>8,307,603</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	1,256,634	4,584,929	5,841,563
Restricted for:			
Capital Projects	2,436,293	0	2,436,293
Cemetery Endowment:			
Expendable Portion	114,068	0	114,068
Nonexpendable Portion	204,347	0	204,347
Other Purposes	920,196	0	920,196
Unrestricted	219,777	341,285	561,062
<i>Total Net Assets</i>	<u>\$5,151,315</u>	<u>\$4,926,214</u>	<u>\$10,077,529</u>

See accompanying notes to the basic financial statements

City of Wellston, Ohio
Statement of Activities
For the Year Ended December 31, 2004

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions
Governmental Activities				
General Government	\$965,988	\$155,205	\$0	\$0
Security of Persons and Property	1,285,163	20,305	48,499	6,000
Transportation	409,388	82,544	272,149	0
Leisure Time Activities	118,986	46,294	32,775	14,000
Public Health Services	159,443	28,469	11,236	0
Community Environment	480,526	241,535	25,797	0
Interest and Fiscal Charges	27,382	0	0	0
<i>Total Governmental Activities</i>	<u>3,446,876</u>	<u>574,352</u>	<u>390,456</u>	<u>20,000</u>
Business-Type Activities				
Water	1,232,536	1,370,610	0	0
Sewer	1,155,595	923,490	0	0
Garbage	285,872	248,149	0	0
<i>Total Business-Type Activities</i>	<u>2,674,003</u>	<u>2,542,249</u>	<u>0</u>	<u>0</u>
<i>Total</i>	<u>\$6,120,879</u>	<u>\$3,116,601</u>	<u>\$390,456</u>	<u>\$20,000</u>

General Revenues

Property and Other Taxes Levied for General Purposes
Property Taxes Levied for:
Fire Protection
Cemetery Upkeep
Street Construction and Maintenance
Income Taxes Levied for General Purposes
Grants and Entitlements not Restricted to Specific Programs
Investment Earnings
Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year - See Note 3

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and
Change in Net Assets

Governmental Activities	Business - Type Activities	Total
(\$810,783)	\$0	(\$810,783)
(1,210,359)	0	(1,210,359)
(54,695)	0	(54,695)
(25,917)	0	(25,917)
(119,738)	0	(119,738)
(213,194)	0	(213,194)
(27,382)	0	(27,382)
<u>(2,462,068)</u>	<u>0</u>	<u>(2,462,068)</u>
0	138,074	138,074
0	(232,105)	(232,105)
0	(37,723)	(37,723)
<u>0</u>	<u>(131,754)</u>	<u>(131,754)</u>
<u>(2,462,068)</u>	<u>(131,754)</u>	<u>(2,593,822)</u>
198,113	0	198,113
248,871	0	248,871
52,270	0	52,270
123,632	0	123,632
599,282	0	599,282
785,599	0	785,599
105,937	0	105,937
71,118	128,067	199,185
<u>2,184,822</u>	<u>128,067</u>	<u>2,312,889</u>
(277,246)	(3,687)	(280,933)
<u>5,428,561</u>	<u>4,929,901</u>	<u>10,358,462</u>
<u>\$5,151,315</u>	<u>\$4,926,214</u>	<u>\$10,077,529</u>

City of Wellston, Ohio

Balance Sheet

Governmental Funds

December 31, 2004

	<u>General</u>	<u>Permanent Investment</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and				
Cash Equivalents	\$103,461	\$33,551	\$791,662	\$928,674
Investments	0	2,400,284	162,806	2,563,090
Receivables:				
Interfund	106,236	0	0	106,236
Intergovernmental	42,510	0	131,420	173,930
Income Taxes	203,835	0	0	203,835
Property and Other Taxes	218,525	0	392,697	611,222
Loans	0	0	196,954	196,954
Prepaid Items	44,137	0	4,647	48,784
<i>Total Assets</i>	<u>\$718,704</u>	<u>\$2,433,835</u>	<u>\$1,680,186</u>	<u>\$4,832,725</u>
Liabilities and Fund Balances				
Liabilities				
Accrued Wages and Benefits Payable	\$34,000	\$0	\$14,393	\$48,393
Intergovernmental Payable	96,622	0	52,946	149,568
Accounts Payable	16,019	0	27,612	43,631
Deferred Revenue	246,865	0	483,020	729,885
Interfund Payable	0	0	93,021	93,021
<i>Total Liabilities</i>	<u>393,506</u>	<u>0</u>	<u>670,992</u>	<u>1,064,498</u>
Fund Balances				
Reserved for Endowments	0	0	318,415	318,415
Reserved for Loans Receivable	0	0	137,436	137,436
Unreserved, Undesignated, Reported in:				
General Fund	325,198	0	0	325,198
Special Revenue Funds	0	0	550,885	550,885
Capital Projects Funds	0	2,433,835	2,458	2,436,293
<i>Total Fund Balance</i>	<u>325,198</u>	<u>2,433,835</u>	<u>1,009,194</u>	<u>3,768,227</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$718,704</u>	<u>\$2,433,835</u>	<u>\$1,680,186</u>	<u>\$4,832,725</u>

See accompanying notes to the basic financial statements

City of Wellston
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2004

Total Governmental Fund Balances		\$3,768,227
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.		1,978,338
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Taxes	73,074	
Intergovernmental	118,663	
Total	191,737	191,737
Long-term liabilities and accrued interest are not due and payable in the current period and therefore are not reported in the funds:		
Compensated Absences	(57,007)	
Accrued Interest Payable	(8,276)	
Long-Term Notes Payable	(721,704)	
Total	(786,987)	(786,987)
 Net Assets of Governmental Activities		 <u><u>\$5,151,315</u></u>

See accompanying notes to the basic financial statements

City of Wellston, Ohio
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

	General	Permanent Investment	Other Governmental Funds	Total Governmental Funds
Revenues				
Property and Other Taxes	\$196,039	\$0	\$421,061	\$617,100
Municipal Income Taxes	599,282	0	0	599,282
Charges for Services	487	0	92,024	92,511
Licenses and Permits	8,718	0	0	8,718
Program Income	0	0	32,657	32,657
Fines and Forfeitures	101,487	0	2,132	103,619
Intergovernmental	613,570	0	526,622	1,140,192
Investment Earnings	104,382	0	10,605	114,987
Rent	45,000	0	88,136	133,136
Contributions and Donations	0	0	2,230	2,230
Other	26,586	0	273,611	300,197
<i>Total Revenues</i>	<u>1,695,551</u>	<u>0</u>	<u>1,449,078</u>	<u>3,144,629</u>
Expenditures				
Current:				
General Government	836,133	0	128,174	964,307
Security of Persons and Property	1,185,362	0	297,672	1,483,034
Transportation	0	0	685,057	685,057
Leisure Time Activities	0	0	132,811	132,811
Public Health Services	0	0	146,452	146,452
Community Environment	0	0	469,882	469,882
Capital Outlay	0	0	6,800	6,800
Debt Service:				
Principal Retirement	75,429	0	27,432	102,861
Interest and Fiscal Charges	12,379	0	14,105	26,484
<i>Total Expenditures</i>	<u>2,109,303</u>	<u>0</u>	<u>1,908,385</u>	<u>4,017,688</u>
<i>Excess of Revenues Under Expenditures</i>	(413,752)	0	(459,307)	(873,059)
Other Financing Sources:				
Notes Issued	473,089	0	102,561	575,650
Payment on Notes	(253,983)	0	0	(253,983)
<i>Total Other Financing Sources (Uses)</i>	<u>219,106</u>	<u>0</u>	<u>102,561</u>	<u>321,667</u>
<i>Net Change in Fund Balances</i>	(194,646)	0	(356,746)	(551,392)
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>519,844</u>	<u>2,433,835</u>	<u>1,365,940</u>	<u>4,319,619</u>
<i>Fund Balances End of Year</i>	<u>\$325,198</u>	<u>\$2,433,835</u>	<u>\$1,009,194</u>	<u>\$3,768,227</u>

See accompanying notes to the basic 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, 2004

Net Change in Fund Balances - Total Governmental Funds (\$551,392)

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

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

Capital Asset Additions	556,986	
Depreciation Expense	(89,192)	
Total	467,794	467,794

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

Delinquent Taxes	5,786	
Grants	19,215	
Total	25,001	25,001

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

356,844

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities.

(898)

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

(575,650)

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	1,055	

Change in Net Assets of Governmental Activities (\$277,246)

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, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Property and Other Taxes	\$168,564	\$222,024	\$196,039	(\$25,985)
Municipal Income Taxes	639,639	824,020	725,416	(98,604)
Charges for Services	0	0	487	487
Licenses and Permits	16,111	21,220	8,718	(12,502)
Fines and Forfeitures	87,263	114,938	101,487	(13,451)
Intergovernmental	524,997	691,501	610,570	(80,931)
Investment Earnings	3,683	4,851	129,863	125,012
Rent	35,082	46,208	45,000	(1,208)
Other	16,333	23,772	26,586	2,814
<i>Total Revenues</i>	<u>1,491,672</u>	<u>1,948,534</u>	<u>1,844,166</u>	<u>(104,368)</u>
Expenditures				
Current:				
General Government	555,523	560,280	839,497	(279,217)
Security of Persons and Property	1,543,577	1,694,514	1,151,733	542,781
Debt Service:				
Principal Retirement	0	329,412	329,412	0
Interest and Fiscal Charges	0	12,379	12,379	0
<i>Total Expenditures</i>	<u>2,099,100</u>	<u>2,596,585</u>	<u>2,333,021</u>	<u>263,564</u>
<i>Excess of Revenues Under Expenditures</i>	(607,428)	(648,051)	(488,855)	159,196
Other Financing Source				
Notes Issued	0	473,089	473,089	0
<i>Net Change in Fund Balance</i>	(607,428)	(174,962)	(15,766)	159,196
<i>Fund Balance Beginning of Year</i>	217,251	217,251	217,251	0
Prior Year Encumbrances Appropriated	7,158	7,158	7,158	0
<i>Fund Balance (Deficit) End of Year</i>	<u>(\$383,019)</u>	<u>\$49,447</u>	<u>\$208,643</u>	<u>\$159,196</u>

See accompanying notes to the basic financial statements

City of Wellston, Ohio
Statement of Fund Net Assets
Enterprise Funds
December 31, 2004

	Water	Sewer	Garbage	Total Enterprise Funds
Assets				
Current:				
Equity in Pooled Cash and Cash Equivalents	\$16,306	\$141,778	\$0	\$158,084
Accounts Receivable	183,418	134,080	2,153	319,651
Prepaid Items	16,061	1,736	3,575	21,372
Loans Receivable	0	233,333	0	233,333
Restricted Assets:				
Customer Deposits	200,835	0	0	200,835
<i>Total Current Assets</i>	<u>416,620</u>	<u>510,927</u>	<u>5,728</u>	<u>933,275</u>
Noncurrent:				
Non-Depreciable Capital Assets	29,952	44,178	0	74,130
Depreciable Capital Assets, Net	2,369,584	8,212,416	90,900	10,672,900
<i>Total Noncurrent Assets</i>	<u>2,399,536</u>	<u>8,256,594</u>	<u>90,900</u>	<u>10,747,030</u>
<i>Total Assets</i>	<u>2,816,156</u>	<u>8,767,521</u>	<u>96,628</u>	<u>11,680,305</u>
Liabilities				
Current:				
Accrued Wages and Benefits Payable	20,146	11,958	5,411	37,515
Intergovernmental Payable	54,607	48,840	15,128	118,575
Accounts Payable	38,673	9,309	5,168	53,150
Contracts Payable	0	42,470	0	42,470
Retainage Payable	0	1,708	0	1,708
Interfund Payable	0	0	13,215	13,215
Accrued Interest Payable	11,443	63,862	533	75,838
OPWC Loans Payable	36,491	48,228	0	84,719
OWDA Loans Payable	73,206	118,313	0	191,519
Loans Payable	11,861	28,480	15,582	55,923
Revenue Bonds Payable	71,429	30,000	0	101,429
General Obligation Bonds Payable	0	12,000	0	12,000
Compensated Absences Payable	15,438	508	2,806	18,752
Payables from Restricted Assets:				
Customer Deposits Payable	200,835	0	0	200,835
<i>Total Current Liabilities</i>	<u>459,376</u>	<u>354,878</u>	<u>37,304</u>	<u>851,558</u>
Long-Term:				
OPWC Loans Payable	348,949	269,945	0	618,894
OWDA Loans Payable	728,373	1,442,948	0	2,171,321
Loans Payable	86,241	61,471	82,870	230,582
Revenue Bonds Payable	285,714	1,722,000	0	2,007,714
General Obligation Bonds Payable	0	688,000	0	688,000
Compensated Absences Payable	24,661	2,066	3,205	29,932
<i>Total Long-Term Liabilities</i>	<u>1,473,938</u>	<u>4,186,430</u>	<u>86,075</u>	<u>5,746,443</u>
<i>Total Liabilities</i>	<u>1,933,314</u>	<u>4,541,308</u>	<u>123,379</u>	<u>6,598,001</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	757,272	3,835,209	(7,552)	4,584,929
Unrestricted	50,817	330,206	(39,738)	341,285
<i>Total Net Assets</i>	<u>\$808,089</u>	<u>\$4,165,415</u>	<u>(\$47,290)</u>	<u>\$4,926,214</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, 2004

	Water	Sewer	Garbage	Total Enterprise Funds
Operating Revenues				
Charges for Services	\$1,370,610	\$923,490	\$248,149	\$2,542,249
Other	37,765	90,302	0	128,067
<i>Total Operating Revenues</i>	<u>1,408,375</u>	<u>1,013,792</u>	<u>248,149</u>	<u>2,670,316</u>
Operating Expenses				
Personal Services	455,212	323,561	107,407	886,180
Fringe Benefits	145,295	102,017	38,481	285,793
Contractual Services	169,114	141,441	66,853	377,408
Materials and Supplies	290,813	138,493	35,085	464,391
Depreciation	70,846	285,168	25,706	381,720
Other	62,863	0	10,846	73,709
<i>Total Operating Expenses</i>	<u>1,194,143</u>	<u>990,680</u>	<u>284,378</u>	<u>2,469,201</u>
<i>Operating Income (Loss)</i>	214,232	23,112	(36,229)	201,115
Non-Operating Expenses				
Interest and Fiscal Charges	<u>(38,393)</u>	<u>(164,915)</u>	<u>(1,494)</u>	<u>(204,802)</u>
<i>Change in Net Assets</i>	175,839	(141,803)	(37,723)	(3,687)
<i>Net Assets (Deficit) Beginning of Year - Restated (See Note 3)</i>	<u>632,250</u>	<u>4,307,218</u>	<u>(9,567)</u>	<u>4,929,901</u>
<i>Net Assets (Deficit) End of Year</i>	<u>\$808,089</u>	<u>\$4,165,415</u>	<u>(\$47,290)</u>	<u>\$4,926,214</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, 2004

	Water	Sewer	Garbage	Total Enterprise Funds
Increase (Decrease) in Cash and Cash Equivalents				
Cash Flows from Operating Activities				
Cash Received from Customers	\$1,277,286	\$937,630	\$250,421	\$2,465,337
Other Cash Receipts	64,865	90,302	0	155,167
Cash Payments for Employee Services and Benefits	(565,859)	(403,135)	(136,676)	(1,105,670)
Cash Payments for Goods and Services	(475,495)	(269,451)	(104,606)	(849,552)
Utility Deposits Received	27,100	0	0	27,100
Utility Deposits Returned	(28,956)	0	0	(28,956)
Other Cash Payments	(62,863)	0	(10,846)	(73,709)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>236,078</u>	<u>355,346</u>	<u>(1,707)</u>	<u>589,717</u>
Cash Flows from Noncapital Financing Activities				
Advances In	0	0	13,215	13,215
Cash Flows from Capital and Related Financing Activities				
Acquisition of Capital Assets	(46,092)	0	(101,000)	(147,092)
Proceeds from the Sale of Notes	0	0	101,000	101,000
Principal Paid on Revenue Bonds Payable	(71,428)	(29,000)	0	(100,428)
Principal Paid on General Obligation Bonds Payable	0	(11,000)	0	(11,000)
Principal Paid on Notes Payable	(11,513)	(27,075)	(16,042)	(54,630)
Principal Paid on OWDA Loans Payable	(71,771)	(115,762)	0	(187,533)
Principal Paid on OPWC Loans Payable	(36,491)	(48,228)	0	(84,719)
Interest Paid on Revenue Bonds Payable	(17,571)	(89,000)	0	(106,571)
Interest Paid on General Obligation Bonds Payable	0	(35,500)	0	(35,500)
Interest Paid on Notes Payable	(3,203)	(6,073)	(1,248)	(10,524)
Interest Paid on OWDA Loans Payable	(17,467)	(36,258)	0	(53,725)
<i>Net Cash Used in Capital and Related Financing Activities</i>	<u>(275,536)</u>	<u>(397,896)</u>	<u>(17,290)</u>	<u>(690,722)</u>
<i>Net Decrease in Cash and Cash Equivalents</i>	(39,458)	(42,550)	(5,782)	(87,790)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>256,599</u>	<u>184,328</u>	<u>5,782</u>	<u>446,709</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$217,141</u>	<u>\$141,778</u>	<u>\$0</u>	<u>\$358,919</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities				
Operating Income (Loss)	\$214,232	\$23,112	(\$36,229)	\$201,115
Adjustments:				
Depreciation	70,846	285,168	25,706	381,720
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(66,224)	14,139	2,273	(49,812)
(Increase) Decrease in Prepaid Items	(6,089)	9,071	(2,785)	197
Increase in Accounts Payable	6,544	1,025	78	7,647
Increase in Accrued Wages and Benefits Payable	6,701	1,137	2,095	9,933
Decrease in Contracts Payable	(16,140)	0	0	(16,140)
Increase (Decrease) in Compensated Absences Payable	5,174	(1,998)	1,437	4,613
Decrease in Customer Deposits Payable	(1,856)	0	0	(1,856)
Increase in Intergovernmental Payable	22,890	23,692	5,718	52,300
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>\$236,078</u>	<u>\$355,346</u>	<u>(\$1,707)</u>	<u>\$589,717</u>

See accompanying notes to the basic financial statements

City of Wellston
Statement of Fiduciary Assets and Liabilities
Agency Fund
December 31, 2004

Assets

Equity in Pooled Cash and Cash Equivalents	<u><u>\$10,005</u></u>
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Liabilities

Due to Others	<u><u>\$10,005</u></u>
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See accountant's compilation report

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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 is elected at-large and 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. 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.

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.

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, 2004

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. The policy of the City is to not allocate indirect expenses to functions in the statement of activities. 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. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. 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.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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 all financial resources except those required to be 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.

Permanent Investment - The Permanent Investment Fund is used to account for proceeds from the sale of the City's electric plant. Per Ohio Revised Code, 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 of 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 of 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 of 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.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

C. Measurement Focus

Government-wide Financial Statements – The government-wide financial statements are prepared using the flow of 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 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 sales taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from sales taxes is recognized in the period in which the taxable sale takes place. 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.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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), fees and rentals.

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2004, but which were levied to finance year 2005 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 amount 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, 2004

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. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents."

During 2004, investments were limited to treasury bills, certificates of deposit, and STAROhio.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 2004. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2004.

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 2004, interest was distributed to General Fund, certain special revenue funds, capital projects funds, debt service funds, and enterprise funds. Interest revenue credited to the General Fund during 2004 amounted to \$104,382, which includes \$90,228 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 to be recorded on the City's financial statements are recorded to the extent that the amounts are determined material and 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. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2004 are recorded as prepaid items using the consumption method recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

I. 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.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

J. 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/sewer customer deposits.

K. 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.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City has elected not to retroactively report 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, land improvements (infrastructure), 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
Building	40 years	40 years
Furniture	15 years	15 years
Equipment	15 years	15 years
Vehicles	5-25 years	5-25 years
Infrastructure	15 years	70 years

L. 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.

For governmental and proprietary funds, the City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. 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 sick leave for employees after ten years of service.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

The entire compensated absences liability is reported on the government-wide financial statements.

M. 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, it reports compensated absences and contractually required pension contributions that will be paid from governmental funds as a liability in the fund financial statements only to the extent that these liabilities are due for payment during the current year. It recognizes bonds and long-term notes as a liability in the governmental fund financial statements when due.

Long-term liabilities are being repaid from the following funds

Obligation	Fund
Compensated Absences	The fund from which the employee's salary is paid.
Vehicle Notes	General Fund, Street Fund, Fire Levy Fund, Garbage Fund Sewer 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

N. 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 and endowments.

O. 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 or other governments.

The government-wide statement of net assets reports \$3,674,904 of restricted net assets, of which \$670,282 is restricted by enabling legislation.

Net assets restricted for other purposes include activities related to street and state highway maintenance and repair, parks and recreation, cemetery services, fire protection, health services, and community development and housing.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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

P. Contributions of Capital

Contributions of capital in the proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from outside contributions of resources to capital acquisition or construction. There were no capital contributions in 2004.

Q. Interfund Transactions

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.

R. 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.

S. 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.

T. 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 2004, no extraordinary or special items occurred.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES

For the year ended December 31, 2004, the City has implemented GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus"; GASB Statement No. 38, "Certain Financial Statement Note Disclosures"; GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences"; GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements"; GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units"; GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation"; and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers.

GASB 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the City's programs between business-type activities and governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2003, caused by the reclassification of funds based on the guidance provided in Statement No. 34 and the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the MD&A, the classification of program revenues, and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement note disclosures. At December 31, 2004, there was no effect on fund balances as a result of implementing GASB Statements 37 and 38.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization, or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the City not being able to present budgetary comparisons for the general and each major special revenue fund. The implementation of this statement did not have any effect on the presentation of the City's budgetary financial statements for 2004.

GASB Statement No. 39 states that entities for which a primary government is not financially accountable may still be reported as component units based on the nature and significance of their relationship with the primary government.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

The implementation of GASB Statement No. 39, GASB Statement No. 46, and GASB Technical Bulletin No. 2004-2 did not affect the presentation of the financial statements of the City.

Restatement of Fund Balances

During 2004, there were also restatements of fund equity for enterprise fund capital assets due to the City increasing its capitalization threshold to \$10,000. These restatements and the implementation of Interpretation No. 6 had the following effect on fund balance of the major and nonmajor funds of the City as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Permanent Investment	Nonmajor Governmental Funds	Totals
Fund Balances (Deficit)				
December 31, 2003	\$536,313	\$2,459,260	\$1,166,436	\$4,162,009
Fund Reclassification	25,425	(25,425)	226,403	226,403
Intergovernmental Payable	(41,894)	0	(26,899)	(68,793)
Restated Fund Balances, January 1, 2004	\$519,844	\$2,433,835	\$1,365,940	4,319,619
GASB 34 Adjustments:				
Capital Assets				1,510,544
Compensated Absences Payable				(58,062)
Accrued Interest Payable				(7,378)
Long-Term Liabilities				(502,898)
Long-Term (Deferred) Assets				166,736
Governmental Activities Net Assets, January 1, 2004				<u>\$5,428,561</u>

The transition from enterprise fund equity to net assets of the business-type activities and internal service fund is as follows:

	Water	Sewer	Garbage	McNally Building	Swimming Pool	Totals
Fund Equity, December 31, 2003	\$751,968	\$4,414,897	(\$212)	\$518,785	(\$1,252)	\$5,684,186
Fund Reclassification	0	0	0	(518,785)	1,252	(517,533)
Capital Assets Reappraised	(119,718)	(107,679)	(9,355)	0	0	(236,752)
Net Assets of Business-type Activities, January 1, 2004	<u>\$632,250</u>	<u>\$4,307,218</u>	<u>(\$9,567)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$4,929,901</u>

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Fund Deficits

The following funds had deficit fund balances/net assets as of December 31, 2004:

<u>Fund Type/Fund</u>	
<u>Special Revenue:</u>	
Cemetery	\$64,727
Recreation	13,564
McNally	18,610
Railroad Depot	1,038
DARE	670
Kuppenheimer	839
Swimming Pool	21,264
 <u>Enterprise:</u>	
Garbage	47,290

The deficits in these funds are the result of the recognition of payables in accordance with Generally Accepted Accounting Principles.

B. Legal Compliance

The following accounts had expenditures plus encumbrances in excess of appropriations contrary to Section 5705.41(B), Ohio Revised Code:

<u>Fund Type/Fund</u>	<u>Excess</u>
<u>General Fund:</u>	
General Government	\$279,217

Additionally, expenditures plus encumbrances exceeded appropriations at the fund level at December 31, 2004 in the Recreation, Street Levy, McNally, DARE, CHIS, Fire Department Special Programs, Kuppenheimer and Pool Funds contrary to Section 5705.41(B), Ohio Revised Code.

The City had negative cash fund balances at December 31, 2004 in the Street, Cemetery, Recreation, McNally, Railroad Depot, DARE, Kuppenheimer, Pool, North Water Capital, Sewer and Garbage Funds contrary to Section 5705.10, Ohio Revised Code.

Appropriations exceeded actual resources at December 31, 2004 in the General, Cemetery, Railroad Depot, City Government Scholarship, Police Department Special Programs, DUI Education and Enforcement, Kuppenheimer, North Water Capital, Sewer, North Sewer Construction, North Sewer Capital and Garbage Funds contrary to Section 5705.36(A)(2), Ohio Revised Code.

Appropriations exceeded estimated resources at December 31, 2004 in the Fire, Street, Cemetery, Recreation, UDAG Revolving Loan, Fire Department Special Programs, Pool, Water, Sewer and Garbage Funds contrary to Section 5705.39, Ohio Revised Code.

The City will more closely monitor budgetary procedures pertaining to violations of this nature in the future.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis, as provided by law, is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances.

The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budget Basis) General Fund is presented on the budgetary basis to provide a comparison of actual results in the budget and to demonstrate compliance with State statute.

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/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Proceeds from and principal payments on short-term note obligations are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
4. Unrecorded cash, fair market value adjustments, and 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:

Net Change in Fund Balances	
	General Fund
GAAP Basis	(\$194,646)
Net Adjustment for Revenue Accruals	23,076
Net Adjustment for Expenditure Accruals	66,795
Beginning of Year:	
Unreported Cash	1,113
Prepaid Items	7,607
Change in Fair Value	159,131
End of Year:	
Unreported Cash	(1,154)
Prepaid Items	(44,137)
Change in Fair Value	(33,551)
Budget Basis	(\$15,766)

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 6 - DEPOSITS AND INVESTMENTS

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

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, 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.

Monies held by the City, which are not considered active, are classified as inactive. Beginning June 15, 2004, inactive monies may be deposited or invested in the following securities provided a written investment policy has been filed with the Ohio Auditor of State:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury or any obligation guaranteed as to principal and interest by the United States; or any book entry, zero-coupon United States treasury security that is a direct obligation of the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality; including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, 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 that the market value of the securities subject to the repurchase agreement exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. The State Treasurer's investment pool (STAROhio);

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specific dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation to transfer from the custodian.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Deposits

At year end, the carrying amount of the City's deposits was \$1,081,736 and the bank balance was \$1,095,733. Of the bank balance, \$200,000 was covered by federal deposit insurance and \$895,733 was considered uninsured and uncollateralized. All was covered by federal deposit insurance. Although collateral was held by the pledging financial institution's trust department or agent in the City's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

Investments

GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements", requires that local governments disclose the carrying amounts and market value of investments, classified by risk. The City's investments are categorized as either (1) insured or registered or for which the securities are held by the City or its agent in the City's name, (2) uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the City's name, or (3) uninsured and unregistered for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. STAR Ohio which is an investment fund operated by the Ohio State Treasurer, is unclassified since it is not evidenced by securities that exist in physical or book entry form.

	Category 2	Fair Value
U.S. Treasury Notes	\$2,563,090	\$2,563,090
STAROhio	0	215,862
Total	\$2,563,090	\$2,778,952

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. Cash equivalents are defined to include investments with original maturities of three months or less, and the City's cash management pool.

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement 9	\$1,297,598	\$2,563,090
Investments:		
STAROhio	(215,862)	215,862
GASB Statement 3	\$1,081,736	\$2,778,952

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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 2004 for real and public utility property taxes represents collections of 2003 taxes. Property tax payments received during 2004 for tangible personal property (other than public utility property) is for 2004 taxes.

2004 real property taxes are levied after October 1, 2004, on assessed value as of January 1, 2004, the lien date. Assessed values are established by State law 35 percent of the appraised value. 2004 real property taxes are collected in and intended to finance 2005 activity.

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. 2004 public utility property taxes became a lien December 31, 2003, are levied after October 1, 2004, and are collected in 2005 with real property taxes.

2004 tangible personal property taxes are levied after October 1, 2003, on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are 25 percent of true value for all property except inventory, which has a rate of 23 percent.

The full tax rate for all City operations for the year ended December 31, 2004, was \$9.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

	<u>2004</u>
Real Property	<u>\$35,164,580</u>
Public Utility Real and Tangible Personal Property	19,137,740
Tangible Personal Property	<u>15,671,078</u>
Total Assessed Value	<u><u>\$69,973,398</u></u>

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.

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.

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, 2004, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2004 operations. The receivable is therefore offset by a credit to deferred revenue.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 8 - INCOME TAX

The City levies a municipal income tax of three-fourths 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, new equipment, extension and enlargement of municipal services and facilities and capital improvements of the City of Wellston. In 2004, the proceeds were receipted into the General Fund. Income tax revenue for 2004 was \$599,282.

NOTE 9 - RECEIVABLES

Receivables at December 31, 2004 consisted primarily of taxes, intergovernmental receivables arising from grants, loans, entitlements and shared revenues, interest on investments, 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 \$430,287. \$196,954 is for principal owed to the City for CDBG and UDAG revolving loan monies loaned to businesses for improvement and expansion efforts. The amount not scheduled for collection during the subsequent year is \$137,436. \$233,333 represents a loan to General Mills for water treatment facilities. The amount not scheduled for collection during the subsequent year is \$186,666.

A summary of intergovernmental receivables follows:

<u>Governmental Activities</u>	
Permissive Tax	\$26,765
Local Government Subsidies	42,510
Gasoline Tax	72,131
Motor Vehicle License Tax	28,524
Ohio Department of Development Grant	<u>4,000</u>
Total Governmental Activities	<u><u>\$173,930</u></u>

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 10 - CAPITALASSETS

Capital asset activity for the year ended December 31, 2004, was as follows:

	Balance 12/31/2003	Additions	Reductions	Balance 12/31/2004
<u>Governmental Activities:</u>				
Non Depreciable Capital Assets:				
Land	\$103,550	\$0	\$0	\$103,550
Total Non Depreciable Capital Assets	<u>103,550</u>	<u>0</u>	<u>0</u>	<u>103,550</u>
Depreciable Capital Assets:				
Buildings	933,636	38,365	0	972,001
Equipment	181,151	0	0	181,151
Infrastructure	0	196,955	0	196,955
Vehicles	1,094,027	321,666	0	1,415,693
Total Depreciable Capital Assets	<u>2,208,814</u>	<u>556,986</u>	<u>0</u>	<u>2,765,800</u>
Accumulated Depreciation:				
Buildings	(327,907)	(11,800)	0	(339,707)
Equipment	(109,406)	(9,034)	0	(118,440)
Infrastructure	0	(6,565)	0	(6,565)
Vehicles	(364,507)	(61,793)	0	(426,300)
Total Accumulated Depreciation	<u>(801,820)</u>	<u>(89,192) *</u>	<u>0</u>	<u>(891,012)</u>
Total Depreciable Capital Assets, Net	<u>1,406,994</u>	<u>467,794</u>	<u>0</u>	<u>1,874,788</u>
Governmental Activities Capital Assets, Net	<u>\$1,510,544</u>	<u>\$467,794</u>	<u>\$0</u>	<u>\$1,978,338</u>

*Depreciation expense was charged to governmental activities as follows:

<u>Governmental Activities:</u>	
General Government	\$1,800
Security of Persons and Property	50,254
Transportation	23,752
Leisure Time Activities	175
Public Health Services	2,567
Community Environment	10,644
Total Depreciation Expense	<u>\$89,192</u>

City of Wellston, Ohio
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For the Year Ended December 31, 2004

	Balance 12/31/2003	Additions	Reductions	Balance 12/31/2004
<u>Business - Type Activities:</u>				
Non Depreciable Capital Assets:				
Construction in Progress	\$0	\$74,130	\$0	\$74,130
Total Non Depreciable Capital Assets	<u>0</u>	<u>74,130</u>	<u>0</u>	<u>74,130</u>
Depreciable Capital Assets:				
Buildings	10,524,332	0	0	10,524,332
Equipment	301,685	0	0	301,685
Infrastructure	3,638,058	16,140	0	3,654,198
Vehicles	488,269	101,000	0	589,269
Total Depreciable Capital Assets	<u>14,952,344</u>	<u>117,140</u>	<u>0</u>	<u>15,069,484</u>
Accumulated Depreciation:				
Buildings	(2,967,549)	(263,107)	0	(3,230,656)
Equipment	(146,523)	(15,376)	0	(161,899)
Infrastructure	(613,051)	(50,988)	0	(664,039)
Vehicles	(287,741)	(52,249)	0	(339,990)
Total Accumulated Depreciation	<u>(4,014,864)</u>	<u>(381,720)</u>	<u>0</u>	<u>(4,396,584)</u>
Total Depreciable Capital Assets, Net	<u>10,937,480</u>	<u>(264,580)</u>	<u>0</u>	<u>10,672,900</u>
Business - Type Activities Capital Assets, Net	<u>\$10,937,480</u>	<u>(\$190,450)</u>	<u>\$0</u>	<u>\$10,747,030</u>

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional 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% 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 that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional 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 that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2004, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1

City of Wellston, Ohio
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For the Year Ended December 31, 2004

percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2004 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 were \$124,918, \$168,787 and \$249,100 respectively; 72.14 percent has been contributed for 2004 and 100 percent for 2003 and 2002. Contributions to the member-directed plan for 2004 were \$4,273 made by the City and \$2,618 made by the plan members.

B. Police and Firemen's Disability and Pension Fund

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 the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters were \$25,058 and \$17,287 for the year ended December 31, 2004, \$39,064 and \$19,741 for the year ended December 31, 2003, and \$51,138 and \$20,877 for the year ended December 31, 2002. The full amount has been contributed for 2003 and 2002. 71.55 percent has been contributed for 2004.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System (OPERS)

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 1.00 to 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used.

City of Wellston, Ohio
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Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$52,321. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health coverage to improve the financial solvency of the fund in response to increasing health care costs.

B. Police and Firemen's Disability and Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to 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. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2004 and 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2004 that were used to fund postemployment benefits were \$48,550 for police and \$15,761 for firefighters. The OP&F's total health care expense for the year ended December 31, 2003 (the latest information available) was \$150,853,148, which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003, was 13,662 for police and 10,474 for firefighters.

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 \$50,000 in life insurance and accidental death and dismemberment insurance to its

City of Wellston, Ohio
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For the Year Ended December 31, 2004

full-time employees and part-time employees working a minimum of twenty hours per week through Anthem Life.

The City provides comprehensive major medical insurance through Anthem Blue Cross and Blue Shield. The total monthly premium for single coverage is \$277.17; for an employee with one child coverage is \$467.88; for an employee and spouse coverage is \$609.25; and for family coverage is \$855.64. The City pays 90 percent of all premiums. Premiums are paid from the same funds that pay the employees' salaries.

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, 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	\$3,000,000
Public Officials Liability	\$1,000,000 Per Occurrence	\$3,000,000
Auto Liability	\$1,000,000 Per Occurrence	
Law Enforcement Professional Liability	\$1,000,000 Per Occurrence	\$2,000,000
Employee Dishonesty	\$1,000,000 Per Occurrence	\$4,000,000
Property Damage	\$23,866,490	

Settlements have not exceeded coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 15 - LONG-TERM OBLIGATIONS

Changes in the City's long-term obligations during 2004 consist of the following:

	Outstanding 12/31/2003	Additions	Reductions	Outstanding 12/31/2004	Amounts Due Within One Year
<u>Governmental Activities:</u>					
<u>Long-Term Loans</u>					
Police Cruisers 2004 - \$60,037 - 3.25%	\$0	\$60,037	\$19,691	\$40,346	\$19,850
Fire Trucks 2001 - \$221,000 - 6.04%	202,248	0	7,016	195,232	7,486
Street Sweeper 2004 - \$102,561 - 3.4%	0	102,561	17,083	85,478	15,973
Fire Trucks 2003 - \$253,983 - 3%	253,983	0	253,983	0	0
Fire Trucks 2004 - \$413,052 - 3%	0	413,052	55,738	357,314	55,368
Jackson County Commissioners CDBG 2003 - \$50,000 - 0%	46,667	0	3,333	43,334	3,333
Total Long-Term Loans	502,898	575,650	356,844	721,704	102,010
Compensated Absences	58,062	9,417	10,472	57,007	34,261
Total Governmental Activities	\$560,960	\$585,067	\$367,316	\$778,711	\$136,271

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

	Outstanding 12/31/2003	Additions	Reductions	Outstanding 12/31/2004	Amounts Due Within One Year
<u>Business-Type Activities:</u>					
<u>General Obligation Bonds</u>					
Sewer Farmers Home Administration General					
Obligation Bond - 1993 - 5.00%	\$711,000	\$0	\$11,000	\$700,000	\$12,000
<u>Revenue Bonds</u>					
Water System Improvement - 2002 - 4.10%	428,571	0	71,428	357,143	71,429
Sewer Farmers Home Administration - 1993 - 5.00%	1,781,000	0	29,000	1,752,000	30,000
Total Revenue Bonds Payable	2,209,571	0	100,428	2,109,143	101,429
<u>OPWC Loans</u>					
Water Fund - 1996 - 0.00%	390,000	0	32,500	357,500	32,500
Water Fund - 1992 - 0.00%	31,931	0	3,991	27,940	3,991
South Wastewater Treatment - 1996 - 0.00%	316,373	0	45,196	271,177	45,196
Green Acres Sewer Line - 2000 - 0.00%	50,028	0	3,032	46,996	3,032
Total OPWC Loans Payable	788,332	0	84,719	703,613	84,719
<u>OWDA Loans</u>					
Water Fund - 1995 - 2.00%	873,350	0	71,771	801,579	73,206
Sewer Fund - 1996 - 2.20%	628,017	0	44,166	583,851	45,141
Sewer Fund - 2001 - 2.20%	1,049,006	0	71,596	977,410	73,172
Total OWDA Loans Payable	2,550,373	0	187,533	2,362,840	191,519
<u>Long-Term Loans</u>					
WSOS Community Action Safe Water - 2002 - 3.00%	109,615	0	11,513	98,102	11,861
Sewer Vactor Manufacturing Loan - 2003 - 5.19%	117,026	0	27,075	89,951	28,480
Garbage Truck Milton Bank - 1999 - 5.25%	13,494	0	13,494	0	0
Garbage Truck First National Wellston - 2004 - 3.25%	0	101,000	2,548	98,452	15,582
Total Long-Term Loans Payable	240,135	101,000	54,630	286,505	55,923
Compensated Absences Payable	44,071	8,184	3,571	48,684	18,752
Total Business-Type Activities	\$6,543,482	\$109,184	\$441,881	\$6,210,785	\$464,342

Governmental Activities:

Long-Term Loans

The police cruisers loan was issued on February 9, 2004 for \$60,037 and matures on November 11, 2006. The fire truck loan issued in 2003 was paid off with a loan issued on January 14, 2004 for \$413,052. The loan issued in 2004 will mature on November 11, 2010. These obligations will be paid from the General Fund.

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

City of Wellston, Ohio
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For the Year Ended December 31, 2004

In 2002, 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 amortize all general long-term debt outstanding as of December 31, 2004, including interest payments of \$163,019 are as follows:

Year	Principal	Interest
2005	\$102,010	\$26,780
2006	105,324	23,465
2007	87,595	20,034
2008	90,416	17,212
2009	93,434	14,195
2010-2014	137,310	41,284
2015-2019	90,770	19,213
2020	14,845	836
Totals	<u>\$721,704</u>	<u>\$163,019</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, 2004 were:

Year	Sewer General Obligation Bonds	
	Principal	Interest
2005	\$12,000	\$35,000
2006	13,000	34,400
2007	13,000	33,750
2008	14,000	33,100
2009	15,000	32,400
2010-2014	85,000	150,790
2015-2019	107,000	126,950
2020-2024	137,000	97,200
2025-2029	176,000	59,300
2030-2032	128,000	13,050
Total	<u>\$700,000</u>	<u>\$615,940</u>

City of Wellston, Ohio
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For the Year Ended December 31, 2004

Revenue Bonds

The 2002 \$500,000 Water Fund Revenue Bonds were issued for the purchase and installation of water meters. Repayments will be made from user fees. The final bond matures in 2009. The City issued \$2,000,000 in Sewer Fund Revenue Bonds in 1993. The bonds will mature in 2032.

Principal and interest requirements to retire the City's revenue bonds outstanding at December 31, 2004 were:

Year	Water and Sewer Revenue Bonds	
	Principal	Interest
2005	\$101,429	\$102,243
2006	102,428	97,814
2007	104,429	93,336
2008	106,428	88,757
2009	107,429	84,079
2010-2014	211,000	376,750
2015-2019	270,000	318,300
2020-2024	344,000	243,850
2025-2029	441,000	148,500
2030-2032	321,000	32,600
Total	\$2,109,143	\$1,586,229

OPWC Loans

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

An OPWC loan was issued in 1996 in the amount of \$632,746 for improvements to the South Wastewater Treatment Plant. Repayment will be made from user fees. The loan will be paid off in 2011.

An OPWC loan was issued 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.

City of Wellston, Ohio
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For the Year Ended December 31, 2004

Principal and interest requirements to retire the City's OPWC loans outstanding at December 31, 2004 were:

<u>Year</u>	<u>Amount</u>
2005	\$84,719
2006	84,720
2007	84,720
2008	84,720
2009	84,720
2010-2014	230,838
2015-2019	47,660
2020	1,516
Total	<u><u>\$703,613</u></u>

OWDA Loans

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

OWDA loans were issued 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 by 2016.

Principal and interest requirements to retire the City's enterprise OWDA loans outstanding at December 31, 2004 are as follow:

<u>Year</u>	<u>OWDA</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$191,519	\$53,726
2006	195,592	45,649
2007	199,750	41,480
2008	204,000	37,223
2009	208,338	32,875
2010-2014	1,110,139	117,125
2015-2016	253,502	3,726
Total	<u><u>\$2,362,840</u></u>	<u><u>\$331,804</u></u>

Long-term Loans

The City borrowed \$126,250 from the WSOS Community Action Commission's Safe Water Loan program. 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.

In 2003 the City obtained a loan of \$117,026 for the purchase of a Vactor Sewer Cleaner. The loan matures in 2007. Repayment will be made through user fees.

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

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Principal and interest requirements to retire the City's other loans outstanding at December 31, 2004 were:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2005	\$55,923	\$10,535
2006	58,229	8,185
2007	60,682	5,732
2008	30,098	3,169
2009	31,053	2,207
2010-2012	50,520	1,865
Total	<u>\$286,505</u>	<u>\$31,693</u>

As of December 31, 2004, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$6,523,109.

NOTE 16 - CONTINGENT LIABILITIES

A. Litigation

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

B. Federal and State Grants

For the period January 1, 2004 to December 31, 2004 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.

C. Environmental Contingency

On June 25, 1991, the United States of America, (on behalf of the United States Environmental Protection Agency (U. S. EPA)), State of Ohio and the City of Wellston filed a consent decree with the United States District Court, for the Southern District of Ohio, Eastern Division (the Court), to resolve a complaint (Civil Action No. C2-87-1216), filed by the United States of America, (on behalf of the U.S. EPA), on October 31, 1987. On September 15, 1991, the Court ordered the said Consent Decree be entered as the Judgment and Decree of the Court in this case. Part V Compliance Program, Section B Additional Remedial Action, paragraph 8f of said Consent Decree states "On or before June 15, 1996, Wellston shall complete all work necessary under the approved report to reduce inflow into the collection system or necessary to comply with all terms and conditions of its National Pollutant Discharge Elimination System ("NPEDS") Permit." Part VIII Stipulated Penalties, paragraph 20 of said Consent Decree states, in part, if the City fails to comply with the Additional Remedial Actions at paragraph 8 of the Decree, the City shall be liable to the United States for stipulated penalties as follows for each day of each violation:

Duration	Amount
1-7 days	\$200 per day
8-30 days	\$300 per day
Over 30 days	\$500 per day

As of December 31, 2004, the City had performed all work required under the approved report to reduce inflow into the collection system, however, it did not result in a sufficient reduction of inflow to comply with all terms and conditions of the Consent Decree. The City has evaluated the EPA's requirements and believes

City of Wellston, Ohio
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it is not possible to reduce inflow to the levels required. The EPA has not assessed the stipulated penalties which are estimated to be \$1,553,300, as of December 31, 2004, and growing at a rate of \$500 per day. The City is currently in contact with the U.S. EPA in an effort to dissolve the Consent Decree. Since the ultimate outcome of this matter is undeterminable, the City has not recorded the stipulated penalties as a liability.

NOTE 17 - INTERFUND TRANSACTIONS

Interfund Receivable and Interfund Payable at December 31, 2004 consisted of the following:

<u>Interfund Receivables and Payables</u>	<u>Receivable</u>	<u>Payable</u>
General Fund	\$106,236	\$0
 <u>Special Revenue Funds:</u>		
Street	0	1,802
Cemetery	0	50,592
Recreation	0	11,706
Railroad Depot	0	560
D.A.R.E.	0	669
Kuppenheimer	0	838
Swimming Pool	0	19,895
McNally Building	0	6,959
	<hr/>	<hr/>
Total Special Revenue Funds	0	93,021
 <u>Enterprise Fund</u>		
Garbage	0	13,215
	<hr/>	<hr/>
Total	<u>\$106,236</u>	<u>\$106,236</u>

These advances from the General Fund are due to negative cash fund balances at year end.

NOTE 18 - CONTRACTUAL COMMITMENTS

As of December 31, 2004, the City had contractual purchase commitments for projects in the Water and Sewer Enterprise funds. The amount for each project is as follows:

<u>Vendor</u>	<u>Fund</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Amount Remaining</u>	<u>Purpose</u>
Philadelphia Control Systems	Water	\$47,500	\$29,952	\$17,548	Water Treatment Project
Foill, Inc	Sewer	48,870	44,178	4,692	West Sewer Main Realignment

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 19 – RELATED PARTY TRANSACTIONS

During 2004 the City acquired various products and services from Woolum's Business Products and Clark's Garage for a total of \$3,256 and \$35,171 respectively. These local businesses were owned by Council Members, Keith Woolum and Tom Clark, respectively.



**Auditor of State
Betty Montgomery**

**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, 2004 which collectively comprise the City's basic financial statements and have issued our report thereon dated March 9, 2006, wherein we noted the City has adopted Governmental Accounting Statements No. 34, 37, 38 and 41 and Interpretation 6. 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 to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2004-002 through 2004-009.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable conditions 2004-002, 2004-003, 2004-008, and 2004-009 listed above to be material weaknesses. In a separate letter to the City's management dated March 9, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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 that we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2004-001 through 2004-008. In a separate letter to the City's management dated March 9, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management and the City Council. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

March 9, 2006

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004**

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

FINDING NUMBER 2004-001

Finding for Recovery

According to Article XXV Section 3 of the Union Agreement between the City of Wellston and OCSEA Local 11/AFSCME AFL-CIO, the City of Wellston will provide a one time payment of \$300 per year, per employee, for the clothing allowance for each bargaining-unit employee. Receipts shall be provided to the Auditor's office showing the purchase of clothing after the issue date. Any member not submitting the receipts for the \$300 shall have that amount deducted from the proceeding year disbursement amount.

Sixteen of thirty-one eligible bargaining unit employees did not submit all receipts showing the purchase of clothing after the issue date of January 23, 2004. The following table reflects the 16 bargaining unit employees who did not comply with contract requirements of clothing allowance amounts, receipts submitted and amount overpaid:

Employee	Check Amount	Receipts Provided	Amount Overpaid	Fund
Leon Jayjohn	\$ 300.00	\$ 165.31	\$ 134.69	Sewer
Karl Brandau	300.00	124.03	175.97	Sewer
Fred Snyder	300.00	290.44	9.56	Water
Brian Lusk	300.00		300.00	Sewer
Bob Phillips	300.00		300.00	Sewer
Gordon Hatfield	300.00		300.00	Water
Alvis Brown	300.00		300.00	Sewer
Steve BoCook	300.00		300.00	Sewer
Bert Hall	300.00		300.00	Garbage
Rodney Brown	300.00		300.00	Sewer
				1/3 each - Water, Sewer
Bridgett BoCook	300.00		300.00	and Garbage
John Vitatoe	300.00		300.00	Cemetery
Gary Dillinger	300.00		300.00	Water
Dave Downard	300.00		*	300.00 Cemetery
Jeff Denny	300.00		*	300.00 Street
Larry Brown	300.00		300.00	Sewer
Total	<u><u>\$ 4,800.00</u></u>	<u><u>\$ 579.78</u></u>	<u><u>\$ 4,220.22</u></u>	

* = Jeff Denny and Dave Downard provided receipts from the same Merchant that were not consistent in relation to the receipt number and receipt date; therefore, the receipts amounts were not included above.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public monies illegally expended is hereby issued against the individuals above and CNA Surety Company, their bonding company, jointly and severally, for the overpayment amounts listed above, in favor of the City of Wellston Funds listed above.

On March 17, 2006, Fred Snyder repaid \$9.56 to the City of Wellston as per the City Treasurer's receipt number 18059.

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)**

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

FINDING NUMBER 2004-002

Material Weakness/Noncompliance Citation

Ohio Rev. Code Section 9.38 requires, in part, that a person who is a public official other than a state officer, employee, or agent shall deposit all public moneys received by that person with the treasurer of the public office or properly designated depository on the business day next following the day of receipt, if the total amount of such moneys received exceeds one thousand dollars.

A government employee other than the fiscal officer collecting funds and issuing a receipt must deposit the funds with the government's fiscal officer on the business day following the day of receipt. As an alternative to depositing funds with the government's fiscal officer, the employee instead may deposit funds with the government's designated depository on the business day following the day of receipt.

If the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, public offices may adopt a policy permitting their officials who receive this money to hold it past the next business day, but the deposit must be made no later than 3 business days after receiving it. If the public office is governed by a legislative authority (counties, municipalities, townships, and school districts), only the legislative authority may adopt the policy. The policy must include provisions and procedures to safeguard the money during the intervening period. If the amount exceeds \$1,000 or a lesser amount cannot be safeguarded, the public official must then deposit the money on the next business day.

The Utility Department did not deposit utility receipts on the next business day following the day of receipt with the City Treasurer for thirty-nine percent of the utility batch receipts tested and the City does not have a policy to permit their officials to hold money as indicated above.

We recommend the Utility Department deposit receipts with the City Treasurer by the next business day. Alternatively, if the amount of the daily collection does not exceed \$1,000, City Council could adopt a policy allowing departments to deposit receipts with the City Treasurer within three business days as long as the receipts can be safeguarded.

FINDING NUMBER 2004-003

Material Weakness/Noncompliance Citation

Ohio Rev. Code Section 5705.10 states money that is paid into a fund must be used only for the purposes 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.

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2004-003 (Continued)

Material Weakness/Noncompliance Citation (Continued)

Ohio Rev. Code Section 5705.10 (Continued)

The City had negative fund cash balances at December 31, 2004 as follows:

<u>Fund</u>	<u>Deficit Balance</u>
Special Revenue Funds:	
Street Fund	\$1,802
Cemetery Fund	50,592
Recreation Fund	11,706
McNally Fund	6,959
Railroad Depot Fund	560
DARE Fund	669
Kuppenheimer Fund	838
Pool Fund	19,895
Enterprise Funds:	
North Water Capital Fund	26,510
Sewer Fund	17,198
Garbage Fund	13,215

We recommend the City monitor fund balances closely and if needed, transfer funds from the General Fund to eliminate negative balances. The City should refer to Auditor of State Bulletin 97-003 for guidance when considering inter-fund cash advances. Further, we recommend the City limit spending to only essential purchases in funds experiencing cash flow problems.

FINDING NUMBER 2004-004

Reportable Condition/Noncompliance Citation

Ohio Rev. Code Section 5705.36 (A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. Ohio Rev. Code Section 5705.36 (A)(3) provides that an increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. Ohio Rev. Code Section 5705.36 (A)(4) provides that a reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation.

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)**

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

FINDING NUMBER 2004-004 (Continued)

Reportable Condition/Noncompliance Citation (Continued)

Ohio Rev. Code Section 5705.36 (A)(2) (Continued)

Estimated receipts exceeded actual receipts in several funds at December 31, 2004 causing actual resources to fall below the level of appropriation as follows:

<u>Fund</u>	<u>Actual Resources</u>	<u>Appropriations</u>	<u>Variance</u>
General Fund	\$2,534,506	\$2,596,585	(\$62,079)
Special Revenue Funds:			
Cemetery Fund	100,922	171,200	(70,278)
Railroad Depot Fund	6,311	10,100	(3,789)
City Government Scholarship Fund	0	1,150	(1,150)
Police Department Special Programs Fund	0	5,150	(5,150)
DUI Education & Enforcement Fund	1,466	4,700	(3,234)
Kuppenheimer Fund	26,980	32,860	(5,880)
Enterprise Funds:			
North Water Capital Improvement Fund	(22,519)	58,414	(80,933)
Sewer Fund	842,620	1,150,583	(307,963)
North Sewer Construction Fund	(17,198)	8,500	(25,698)
North Sewer Capital Improvement Fund	186,835	247,935	(61,100)
Garbage Fund	256,204	368,522	(112,318)

This could allow deficit spending to occur, as indicated in Finding Number 2004-003.

We recommend the City Auditor obtain a reduced certificate of estimated resources when it is determined that estimated receipts will be less than the actual receipts causing resources to fall below the level of appropriations.

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)**

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

FINDING NUMBER 2004-005

Reportable Condition/Noncompliance Citation

Ohio Rev. Code Section 5705.39 provides, in part, that the total appropriations from each fund shall not exceed the total estimated revenue. No appropriation measure is to become 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.

Appropriations exceeded estimated resources for the year ended December 31, 2004 as follows:

Fund	Estimated Resources	Appropriations	Variance
Special Revenue Funds:			
Fire Fund	\$264,351	\$279,666	(\$15,315)
Street Fund	329,975	336,000	(6,025)
Cemetery Fund	134,962	171,200	(36,238)
Recreation Fund	65,543	78,279	(12,736)
UDAG Revolving Loan	98,021	130,938	(32,917)
Fire Department Special Programs Fund	4,900	15,000	(10,100)
Pool Fund	29,179	32,860	(3,681)
Enterprise Funds:			
Water Fund	1,417,573	1,504,949	(87,376)
Sewer Fund	868,939	1,150,583	(281,644)
Garbage Fund	321,664	368,522	(46,858)

This could allow deficit spending to occur, as indicated in Finding Number 2004-003.

We recommend the City Auditor ensure that appropriations do not exceed estimated resources prior to filing the appropriation measure with the County Auditor.

FINDING NUMBER 2004-006

Reportable Condition/Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing unit from making an expenditure unless it has been appropriated.

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)**

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

FINDING NUMBER 2004-006 (Continued)

Reportable Condition/Noncompliance Citation (Continued)

Ohio Rev. Code Section 5705.41(B) (Continued)

Disbursements plus encumbrances exceeded appropriations at December 31, 2004 in the following funds:

<u>Fund</u>	<u>Appropriations</u>	<u>Disbursements plus Encumbrances</u>	<u>Variance</u>
Special Revenue Funds:			
Recreation Fund	\$78,279	\$85,596	(\$7,317)
Street Levy Fund	115,000	247,969	(132,969)
McNally Fund	107,313	160,161	(52,848)
DARE Fund	2,436	3,903	(1,467)
CHIS Fund	0	10,000	(10,000)
Fire Department Special Programs Fund	15,000	39,063	(24,063)
Kuppenheimer Fund	2,000	4,142	(2,142)
Pool Fund	32,860	46,874	(14,014)

Additionally, disbursements plus encumbrances exceeded appropriations at the legal level of control for several line items. This could result in deficit spending, as indicated in Finding Number 2004-003.

We recommend the City Auditor not certify the availability of funds and deny payment requests exceeding appropriations. The Auditor may request Council to approve increased disbursement levels by increasing appropriations and amending estimated resources, if necessary.

FINDING NUMBER 2004-007

Reportable Condition/Noncompliance Citation

Ordinance 50.08(B) provides, in part, that the Auditor of Jackson County shall place all collection amounts not paid within a period of one month after a delinquency notice has been served on the tax duplicate with interest and penalties allowed by law, which amount shall be collected in the same manner as municipal taxes are collected.

Although accounts receivable balances increased 30% during the audit period and 6% of the account receivable balance as of the balance sheet date was still uncollected as of the date of the audit, there was no indication that any accounts were ever forwarded to the County Auditor for placement on the tax duplicate.

We recommend the City enforce the ordinances already in place related to the utility charges and collections.

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)**

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

FINDING NUMBER 2004-008

Material Weakness/Noncompliance Citation

Ordinance 51.13 provides, in part, that utility service for residential premises may be disconnected or terminated by the city for non-payment. However, fifty percent of the Utility Department accounts tested included a balance carried forward from a prior month. Accounts receivable for the Utility Department increased 43% (\$96,480) over the prior year. As of the date of this report, a balance of \$17,874 remains unpaid for accounts which were delinquent as of December 31, 2004.

We recommend the City terminate service on delinquent accounts after 30 days unless a contract has been signed by the customer and the Service Director which would result in payment in full of the delinquent account within one year. The account should be monitored to verify payments are made in a timely manner and the current billings are paid in full. Service should be terminated after 30 days for failure to maintain current payments or comply with the terms of the contract.

FINDING NUMBER 2004-009

Material Weakness

When designing the public office's system of internal control and the specific control activities, management should consider verifying the existence and valuation of assets and liabilities and periodically reconciling them to the accounting records.

Although the City Treasurer compared receipts to the bank statement and the Deputy Auditor compared expenditures to the bank statement, there was no formal reconciliation of the City's books to the bank. The Treasurer's report included an amount for "In-Transit Adjustments" which was not explained.

We recommend the City Auditor and the City Treasurer work together to reconcile the bank statements with the City's ledgers monthly. Any items designated as "In-Transit Adjustments" should be investigated, identified, and either explained as a reconciling item or eliminated through corrections of posting errors. Additionally, investment account balances should be reflected in the fund balances. Finally, we recommend bank reconciliations be reviewed by City Council and that review should be documented in the minute record.

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	Finding For Recovery of overpayment of clothing allowance.	No	Partially corrected. See Finding Number 2004-001 in the accompanying Schedule of Findings.
2003-002	Ohio Rev. Code § 149.351 (A) - Destruction of records	No	Partially corrected. Included in immaterial instances of noncompliance which we have reported to the management of the City in a separate letter dated March 9, 2006.
2003-003	Ohio Rev. Code § 733.11 - maintaining an accurate set of books and exhibiting accurate statements of all moneys received and expended.	Yes	
2003-004	Ohio Rev. Code § 5705.10 - money paid into a fund must be used only for the purposes for which such fund has been established.	No	Not corrected. See Finding Number 2004-003 in the accompanying Schedule of Findings.
2003-005	Ohio Rev. Code § 5705.36(A)(2) - amendment of certificate of estimated receipts.	No	Not corrected. See Finding Number 2004-004 in the accompanying Schedule of Findings.
2003-006	Ohio Rev. Code § 5705.39 - appropriations shall not exceed the total estimated revenue.	No	Not corrected. See Finding Number 2004-005 in the accompanying Schedule of Findings.
2003-007	Ohio Rev. Code § 5705.41(B) - expenditures plus encumbrances cannot exceed appropriations.	No	Not corrected. See Finding Number 2004-006 in the accompanying Schedule of Findings.
2003-008	Ohio Rev. Code § 5705.41(D) - no orders or contracts involving the expenditure of money are to be made unless certified by the fiscal officer.	No	Partially corrected. Included in immaterial instances of noncompliance which we have reported to the management of the City in a separate letter dated March 9, 2006.
2003-009	Ordinance 51.09 -estimated utility bills based on the prior two months utility bills. Ordinance 51.11 - review board to approve adjustments. Ordinance 50.08(B) - placement of delinquent utility collections on the tax duplicate.	No	Partially corrected. Included in immaterial instances of noncompliance which we have reported to the management of the City in a separate letter dated March 9, 2006. Not corrected. See Finding Number 2004-007 in the accompanying Schedule of Findings.
2003-010	Reportable condition - SAS 70 report not available for Merrill Lynch, a third party administrator.	No	Finding no longer valid. City has removed the investment from Merrill Lynch and deposited with local banks in certificates of deposit.



**Auditor of State
Betty Montgomery**

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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
MAY 9, 2006**