



Dave Yost • Auditor of State

**CITY OF WELLSTON
JACKSON COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wellston, Jackson County, Ohio (the City), as of and for the year ended December 31, 2011, 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.

The Auditor of State served during the year ended December 31, 2011 as the City's financial supervisor under Ohio Rev. Code §118.05 (G). Government Auditing Standards considers this service to impair the independence of the Auditor of State to the audit the City because the Auditor of State may assume broad management powers, duties and functions under Ohio Rev. Code §118.04. However, Government Auditing Standards permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 118.05 (G) requires the Auditor of State to provide these supervisory services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments.

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, 2011, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General, Fire Levy, and Cemetery Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the City will continue as a going concern. As discussed in Note 19 to the financial statements, the City has suffered recurring losses from operations and has a net asset deficiency that raise substantial doubt about its ability to continue as a going concern. In addition, the Auditor of State has determined a fiscal emergency exists, and a financial planning and supervision commission has assumed certain management responsibilities for the duration of this emergency pursuant to Chapter 118 of the Ohio Rev. Code. Note 19 describes

Management's plans regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As described in Note 3, during 2011 the City of Wellston adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the City's basic financial statements taken as a whole. The Federal Awards Expenditures Schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Federal Awards Expenditures Schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

September 13, 2012

City of Wellston, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
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, 2011. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2011 are as follows:

- The City's total net assets increased by 15 percent, or \$1,700,824, from the total net assets at the beginning of the year 2011.
- At the end of the current year, the City's governmental activities reported total net assets of \$6,262,294, an increase of \$754,005 from the prior year. Unrestricted net assets were \$13,666.
- At the end of the current year, unassigned fund balance for the General Fund was \$476,060, which represents a 25 percent increase from the prior year.

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.

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 2011?" 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

City of Wellston, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
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improved or diminished. However, in evaluating the overall position of the City, nonfinancial information such as the condition of City capital assets will also need to be evaluated.

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

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

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

Reporting the City of Wellston's Most Significant Funds

Fund Financial Statements

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

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

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.

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

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

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

The City of Wellston as a Whole

Recall that the Statement of Net Assets looks at the City as a whole. Table 1 provides a summary of the City's net assets for 2011 compared to 2010.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets						
Current and Other Assets	\$5,300,486	\$4,690,629	\$1,219,524	\$826,758	\$6,520,010	\$5,517,387
Capital Assets, Net	1,643,341	1,851,913	10,188,490	9,589,950	11,831,831	11,441,863
<i>Total Assets</i>	<u>6,943,827</u>	<u>6,542,542</u>	<u>11,408,014</u>	<u>10,416,708</u>	<u>18,351,841</u>	<u>16,959,250</u>
Liabilities						
Current and Other Liabilities	453,334	712,138	692,877	392,877	1,146,211	1,105,015
Noncurrent Liabilities	228,199	322,115	3,569,068	3,824,581	3,797,267	4,146,696
<i>Total Liabilities</i>	<u>681,533</u>	<u>1,034,253</u>	<u>4,261,945</u>	<u>4,217,458</u>	<u>4,943,478</u>	<u>5,251,711</u>
Net Assets						
Invested in Capital Assets,						
Net of Related Debt	1,510,690	1,645,191	6,711,982	5,880,803	8,222,672	7,525,994
Restricted	4,737,938	4,097,767	0	0	4,737,938	4,097,767
Unrestricted (Deficit)	13,666	(234,669)	434,087	318,447	447,753	83,778
<i>Total Net Assets</i>	<u>\$6,262,294</u>	<u>\$5,508,289</u>	<u>\$7,146,069</u>	<u>\$6,199,250</u>	<u>\$13,408,363</u>	<u>\$11,707,539</u>

Total governmental activities assets increased \$401,285. Governmental activities' capital assets decreased \$208,572 due to depreciation expense and losses on the disposal of assets. There was a decrease in total liabilities for governmental activities of \$352,720 primarily due to a decrease in interfund payables, arising from the City addressing its fiscal emergency status. The \$598,540 increase in capital assets for business-type activities is due to two capital projects in the Water Fund, offset by depreciation. Business-Type activities' current assets increased \$392,766, primarily due to an increase in cash. Business-Type activities' current liabilities increased \$300,000 due to an increase in contracts payable relating to the Water Fund's capital improvement projects.

City of Wellston, Ohio
Management's Discussion and Analysis
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Table 2 shows the changes in net assets for the fiscal year ended December 31, 2011, and comparisons to 2010.

Table 2
Changes in Net Assets

	Governmental	Business-	Total	Governmental	Business-	Total
	Activities	Type		Activities	Type	
	2011	2011	2011	2010	2010	2010
Revenues						
Program Revenues:						
Charges for Services	\$188,325	\$2,926,805	\$3,115,130	\$210,886	\$3,298,857	\$3,509,743
Operating Grants and Contributions	1,049,110	0	1,049,110	982,274	0	982,274
Capital Grants and Contributions	0	635,779	635,779	0	328,641	328,641
Total Program Revenues	1,237,435	3,562,584	4,800,019	1,193,160	3,627,498	4,820,658
General Revenues:						
Property Taxes	442,232	0	442,232	515,849	0	515,849
Income Taxes	1,069,108	0	1,069,108	1,208,984	0	1,208,984
Grants and Entitlements	228,338	0	228,338	289,491	0	289,491
Investment Earnings	65,849	0	65,849	100,329	0	100,329
Gain on Sale of Capital Assets	1,271	0	1,271	0	0	0
Miscellaneous	57,694	47,463	105,157	28,985	76,287	105,272
Extraordinary Item	398,096	0	398,096	0	0	0
Total General Revenues and Extraordinary Item	2,262,588	47,463	2,310,051	2,143,638	76,287	2,219,925
Total Revenues	3,500,023	3,610,047	7,110,070	3,336,798	3,703,785	7,040,583
Transfers	0	0	0	(16,000)	16,000	0
Total Revenues and Transfers	3,500,023	3,610,047	7,110,070	3,320,798	3,719,785	7,040,583
Program Expenses						
General Government	653,751	0	653,751	488,138	0	488,138
Security of Persons and Property	1,388,752	0	1,388,752	1,212,172	0	1,212,172
Transportation	324,152	0	324,152	271,822	0	271,822
Leisure Time Activities	7,538	0	7,538	17,983	0	17,983
Public Health Services	18,294	0	18,294	70,344	0	70,344
Community Environment	346,376	0	346,376	591,987	0	591,987
Interest and Fiscal Charges	7,155	0	7,155	11,409	0	11,409
Water	0	1,308,580	1,308,580	0	1,322,925	1,322,925
Sewer	0	1,106,322	1,106,322	0	1,090,628	1,090,628
Garbage	0	248,326	248,326	0	268,730	268,730
Total Program Expenses	2,746,018	2,663,228	5,409,246	2,663,855	2,682,283	5,346,138
Increase in Net Assets	754,005	946,819	1,700,824	656,943	1,037,502	1,694,445
Net Assets Beginning of Year	5,508,289	6,199,250	11,707,539	4,851,346	5,161,748	10,013,094
Net Assets End of Year	\$6,262,294	\$7,146,069	\$13,408,363	\$5,508,289	\$6,199,250	\$11,707,539

Governmental Activities

Operating grants and contributions accounted for 30 percent of total governmental revenues. Property Tax revenue provided 13 percent of total governmental revenues, and 31 percent was generated from income taxes. These revenue sources comprise the largest components of City revenues. Income taxes, property taxes, grants and entitlements, and contributions combined together, provided 80 percent of the City's total governmental revenues.

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The City received \$188,325, or 5 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 \$1,388,752, or 51 percent, of total expenses. General government activities accounted for \$653,751, or 24 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, intergovernmental revenues, and unrestricted investment interest earnings.

Table 3
Program Expenses and Net Costs of Governmental Activities, by Program
For the Year Ended December 31, 2011

	Program Activity Expenses	Net Cost (Gain) of Program Activity	Program Activity Expenses	Net Cost (Gain) of Program Activity
	2011	2011	2010	2010
General Government	\$653,751	\$412,885	\$488,138	\$269,904
Security of Persons and Property	1,388,752	1,176,768	1,212,172	1,021,808
Transportation	324,152	10,881	271,822	(23,929)
Leisure Time Activities	7,538	383	17,983	10,043
Public Health Services	18,294	(12,368)	70,344	19,043
Community Environment	346,376	(87,121)	591,987	162,417
Interest and Fiscal Charges	7,155	7,155	11,409	11,409
Totals	\$2,746,018	\$1,508,583	\$2,663,855	\$1,470,695

Business-Type Activities

The City's business-type activities are for water, sewer, and garbage services. During 2011, program revenues exceeded expenses by \$899,356.

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

The City's Funds

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

City of Wellston, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
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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, unassigned fund balance serves as a useful measure of the City's net resources available for spending at the end of the year.

General Fund

The General Fund is the primary operating fund of the City. At the end of 2011, fund balance was \$476,060.

The fund balance of the City's General Fund increased by \$96,439, even though revenues decreased while expenditures saw an increase. At the end of 2011, the General Fund transferred its remaining cash to support funds with negative cash balances. The General Fund had \$516,089 in cash at December 31, 2010, which was used, along with a \$253,790 advance from the Permanent Investment Capital Projects Fund, to temporarily support funds with negative cash balances.

Other Major Governmental Funds

The fund balance of the Fire Levy Special Revenue Fund at December 31, 2011, was (\$21, 527), an increase of 19,472.

The fund balance of the Cemetery Special Revenue Fund at December 31, 2011, was (\$438,983), an increase of \$28,154.

The fund balance of the Permanent Investment Capital Projects Fund at December 31, 2011, is \$2,433,835, the same as the prior year. The balance represents the proceeds from the 1967 sale of the City's electric utility.

Enterprise Funds

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

The City's enterprise funds are the Water, Sewer, and Garbage Funds. The Water Fund's net assets increased \$899,560, the Sewer Fund's net assets decreased \$61,747, and the Garbage Fund's net assets increased \$109,006.

General Fund Budgetary Highlights

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

The City did not make significant revisions to the original appropriations approved by City Council. The General Fund budgeted revenue and appropriations did not change during the year.

City of Wellston, Ohio
Management's Discussion and Analysis
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Capital Assets and Debt Administration

Capital Assets

At the end of 2011, the City had \$11,831,831 invested in capital assets, net of accumulated depreciation. Table 4 shows fiscal year 2011 balances compared to 2010.

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Land	\$103,550	\$103,550	\$0	\$0	\$103,550	\$103,550
Land Improvements Not Depreciated	81,141	81,141	0	0	81,141	81,141
Construction in Progress	0	0	955,646	0	955,646	0
Buildings and Improvements	539,169	593,782	5,526,956	6,054,615	6,066,125	6,648,397
Land Improvements	22,753	24,132	0	0	22,753	24,132
Equipment	29,278	25,522	204,713	236,885	233,991	262,407
Infrastructure	360,486	393,793	3,478,647	3,260,905	3,839,133	3,654,698
Vehicles	506,964	629,993	22,528	37,545	529,492	667,538
Totals	\$1,643,341	\$1,851,913	\$10,188,490	\$9,589,950	\$11,831,831	\$11,441,863

The total increase in the City's capital assets, net of accumulated depreciation, for the current year was \$389,968 or 3.4 percent.

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

Debt

As of December 31, 2011, and December 31, 2010, the City had total long-term debt of \$3,629,160 and \$3,939,203, respectively, as follows:

Table 5
Outstanding Debt

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
General Obligation Bonds	\$0	\$0	\$602,000	\$618,000	\$602,000	\$618,000
Revenue Bonds	0	0	1,509,000	1,549,000	1,509,000	1,549,000
OPWC Loans	0	0	247,029	290,315	247,029	290,315
OWDA Loans	0	0	1,111,401	1,230,574	1,111,401	1,230,574
Other Long-Term Loans	152,652	230,056	7,078	21,258	159,730	251,314
Totals	\$152,652	\$230,056	\$3,476,508	\$3,709,147	\$3,629,160	\$3,939,203

The City's overall legal debt margin was \$6,009,298. For additional information on debt, see Note 15 to the basic financial statements.

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

Current Issues

The City continues to work toward financial solvency, by adjusting and following its financial recovery plan, with the assistance of the fiscal emergency commission.

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, 2011

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$4,084,563	\$474,660	\$4,559,223
Accounts Receivable	0	571,620	571,620
Intergovernmental Receivable	292,890	57,722	350,612
Permissive Motor Vehicle License Tax Receivable	5,120	0	5,120
Internal Balances	29,387	(29,387)	0
Income Taxes Receivable	298,817	0	298,817
Property Taxes Receivable	457,736	0	457,736
Loans Receivable	131,973	0	131,973
Customer Deposits	0	144,909	144,909
Non-Depreciable Capital Assets	184,691	955,646	1,140,337
Depreciable Capital Assets, Net	1,458,650	9,232,844	10,691,494
<i>Total Assets</i>	<u>6,943,827</u>	<u>11,408,014</u>	<u>18,351,841</u>
Liabilities			
Accounts Payable	21,291	44,833	66,124
Contracts Payable	0	379,034	379,034
Accrued Wages and Benefits Payable	18,558	14,309	32,867
Intergovernmental Payable	105,121	60,726	165,847
Accrued Interest Payable	4,006	49,066	53,072
Deferred Revenue	304,358	0	304,358
Customer Deposits Payable	0	144,909	144,909
Long-Term Liabilities:			
Due Within One Year	58,634	374,271	432,905
Due In More Than One Year	169,565	3,194,797	3,364,362
<i>Total Liabilities</i>	<u>681,533</u>	<u>4,261,945</u>	<u>4,943,478</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	1,510,690	6,711,982	8,222,672
Restricted for:			
Street Construction	649,696	0	649,696
Police Protection	59,650	0	59,650
Fire Protection	29,016	0	29,016
Community Development	767,249	0	767,249
Capital Projects	2,859,347	0	2,859,347
Cemetery Endowment:			
Expendable Portion	880	0	880
Nonexpendable Portion	250,238	0	250,238
Other Purposes	121,862	0	121,862
Unrestricted	13,666	434,087	447,753
<i>Total Net Assets</i>	<u>\$6,262,294</u>	<u>\$7,146,069</u>	<u>\$13,408,363</u>

See accompanying notes to the basic financial statements

City of Wellston, Ohio
Statement of Activities
For the Year Ended December 31, 2011

	Program Revenues				Net (Expense) Revenue and Change in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants	Governmental Activities	Business - Type Activities	Total
Governmental Activities							
General Government	\$653,751	\$73,121	\$167,745	\$0	(\$412,885)	\$0	(\$412,885)
Security of Persons and Property	1,388,752	46,815	165,169	0	(1,176,768)	0	(1,176,768)
Transportation	324,152	0	313,271	0	(10,881)	0	(10,881)
Leisure Time Activities	7,538	0	7,155	0	(383)	0	(383)
Public Health Services	18,294	25,460	5,202	0	12,368	0	12,368
Community Environment	346,376	42,929	390,568	0	87,121	0	87,121
Interest and Fiscal Charges	7,155	0	0	0	(7,155)	0	(7,155)
<i>Total Governmental Activities</i>	<u>2,746,018</u>	<u>188,325</u>	<u>1,049,110</u>	<u>0</u>	<u>(1,508,583)</u>	<u>0</u>	<u>(1,508,583)</u>
Business-Type Activities							
Water	1,308,580	1,548,326	0	635,779	0	875,525	875,525
Sewer	1,106,322	1,021,414	0	0	0	(84,908)	(84,908)
Garbage	248,326	357,065	0	0	0	108,739	108,739
<i>Total Business-Type Activities</i>	<u>2,663,228</u>	<u>2,926,805</u>	<u>0</u>	<u>635,779</u>	<u>0</u>	<u>899,356</u>	<u>899,356</u>
<i>Total</i>	<u>\$5,409,246</u>	<u>\$3,115,130</u>	<u>\$1,049,110</u>	<u>\$635,779</u>	<u>(1,508,583)</u>	<u>899,356</u>	<u>(609,227)</u>
General Revenues							
Property Taxes Levied for:							
General Purposes					170,648	0	170,648
Fire Protection					271,584	0	271,584
Income Taxes Levied for General Purposes					1,069,108	0	1,069,108
Gain on Sale of Capital Assets					1,271	0	1,271
Grants and Entitlements not Restricted to							
Specific Programs					228,338	0	228,338
Investment Earnings					65,849	0	65,849
Other					57,694	47,463	105,157
Extraordinary Item					398,096	0	398,096
<i>Total General Revenues and Extraordinary Item</i>					<u>2,262,588</u>	<u>47,463</u>	<u>2,310,051</u>
Change in Net Assets					754,005	946,819	1,700,824
<i>Net Assets Beginning of Year</i>					<u>5,508,289</u>	<u>6,199,250</u>	<u>11,707,539</u>
<i>Net Assets End of Year</i>					<u>\$6,262,294</u>	<u>\$7,146,069</u>	<u>\$13,408,363</u>

See accompanying notes to the basic financial statements

City of Wellston, Ohio
Balance Sheet
Governmental Funds
December 31, 2011

	General	Fire Levy	Cemetery	Permanent Investment	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$0	\$1,770	\$0	\$2,180,045	\$1,902,748	\$4,084,563
Receivables:						
Intergovernmental	42,510	0	0	0	250,380	292,890
Permissive Motor Vehicle License Tax	0	0	0	0	5,120	5,120
Interfund	516,089	0	0	253,790	0	769,879
Income Taxes	298,817	0	0	0	0	298,817
Property Taxes	212,467	245,269	0	0	0	457,736
Loans	0	0	0	0	131,973	131,973
Total Assets	\$1,069,883	\$247,039	\$0	\$2,433,835	\$2,290,221	\$6,040,978
Liabilities and Fund Balances						
Liabilities						
Accounts Payable	\$9,002	\$1,757	\$227	\$0	\$10,305	\$21,291
Accrued Wages and Benefits Payable	10,615	5,771	0	0	2,172	18,558
Intergovernmental Payable	79,609	15,769	848	0	8,895	105,121
Deferred Revenue	240,807	245,269	0	0	182,992	669,068
Interfund Payable	253,790	0	437,908	0	48,794	740,492
Total Liabilities	593,823	268,566	438,983	0	253,158	1,554,530
Fund Balances						
Nonspendable for Cemetery	0	0	0	0	204,347	204,347
Restricted for Street Improvements	0	0	0	0	553,876	553,876
Restricted for Community Development	0	0	0	0	781,559	781,559
Restricted for Cemetery	0	0	0	0	46,771	46,771
Restricted for Law Enforcement	0	0	0	0	59,650	59,650
Restricted for Capital Improvements	0	0	0	2,433,835	425,512	2,859,347
Unassigned	476,060	(21,527)	(438,983)	0	(34,652)	(19,102)
Total Fund Balance (Deficit)	476,060	(21,527)	(438,983)	2,433,835	2,037,063	4,486,448
Total Liabilities and Fund Balances	\$1,069,883	\$247,039	\$0	\$2,433,835	\$2,290,221	\$6,040,978

See accompanying notes to the basic financial statements

City of Wellston, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2011*

Total Governmental Fund Balances		\$4,486,448
 <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.		1,643,341
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	153,378	
Intergovernmental Revenues	211,332	
Total	364,710	364,710
Some liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Compensated Absences Payable	(75,547)	
Accrued Interest Payable	(4,006)	
Long-Term Loans Payable	(152,652)	
Total	(232,205)	(232,205)
 Net Assets of Governmental Activities		 \$6,262,294

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, 2011*

	General	Fire Levy	Cemetery	Permanent Investment	Other Governmental Funds	Totals Governmental Funds
Revenues						
Property Taxes	\$177,210	\$268,113	\$0	\$0	\$0	\$445,323
Municipal Income Taxes	1,069,108	0	0	0	0	1,069,108
Permissive Motor Vehicle License Taxes	0	0	0	0	72,085	72,085
Intergovernmental	228,023	69,604	0	0	801,085	1,098,712
Charges for Services	15,858	19,534	15,440	0	10,020	60,852
Fines and Forfeitures	21,436	0	0	0	5,343	26,779
Licenses and Permits	10,868	0	0	0	0	10,868
Investment Earnings	65,849	0	3,153	0	6,181	75,183
Rent	46,897	0	0	0	42,929	89,826
Contributions and Donations	381	1,700	0	0	31,365	33,446
Other	1,461	9,245	302	0	46,686	57,694
<i>Total Revenues</i>	<u>1,637,091</u>	<u>368,196</u>	<u>18,895</u>	<u>0</u>	<u>1,015,694</u>	<u>3,039,876</u>
Expenditures						
Current:						
General Government	540,942	0	0	0	114,210	655,152
Security of Persons and Property	864,537	348,724	0	0	68,963	1,282,224
Transportation	0	0	0	0	288,247	288,247
Leisure Time Activities	0	0	0	0	2,248	2,248
Public Health Services	0	0	15,741	0	11,601	27,342
Community Environment	0	0	0	0	326,018	326,018
Debt Service:						
Principal Retirement	63,531	0	0	0	13,873	77,404
Interest and Fiscal Charges	290	0	0	0	7,501	7,791
<i>Total Expenditures</i>	<u>1,469,300</u>	<u>348,724</u>	<u>15,741</u>	<u>0</u>	<u>832,661</u>	<u>2,666,426</u>
<i>Excess of Revenues Over Expenditures</i>	<u>167,791</u>	<u>19,472</u>	<u>3,154</u>	<u>0</u>	<u>183,033</u>	<u>373,450</u>
Other Financing Sources (Uses)						
Transfers In	0	0	25,000	0	51,383	76,383
Proceeds from Sale of Capital Assets	5,031	0	0	0	0	5,031
Insurance Recoveries	0	0	0	0	428,764	428,764
Transfers Out	(76,383)	0	0	0	0	(76,383)
<i>Total Other Financing Sources (Uses)</i>	<u>(71,352)</u>	<u>0</u>	<u>25,000</u>	<u>0</u>	<u>480,147</u>	<u>433,795</u>
<i>Net Change in Fund Balances</i>	96,439	19,472	28,154	0	663,180	807,245
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>379,621</u>	<u>(40,999)</u>	<u>(467,137)</u>	<u>2,433,835</u>	<u>1,373,883</u>	<u>3,679,203</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$476,060</u>	<u>(\$21,527)</u>	<u>(\$438,983)</u>	<u>\$2,433,835</u>	<u>\$2,037,063</u>	<u>\$4,486,448</u>

See accompanying notes to the general purpose financial statements

City of Wellston, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2011*

Net Change in Fund Balances - Total Governmental Funds \$807,245

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

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

Capital Asset Additions	10,200	
Depreciation Expense	<u>(112,523)</u>	(102,323)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (106,249)

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

Grants	63,871	
Delinquent Property Taxes	<u>(3,091)</u>	60,780

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 77,404

In the statement of activities interest is accrued on outstanding loans, whereas in governmental funds, interest is expended when due. 636

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

Compensated Absences Payable		<u>16,512</u>
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Change in Net Assets of Governmental Activities \$754,005

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, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Revenues				
Property Taxes	\$215,844	\$215,844	\$177,210	(\$38,634)
Municipal Income Taxes	1,100,000	1,100,000	1,118,413	18,413
Intergovernmental	187,850	187,850	228,023	40,173
Charges for Services	15,756	15,756	15,858	102
Fines and Forfeitures	37,000	37,000	21,436	(15,564)
Licenses and Permits	1,800	1,800	10,868	9,068
Investment Earnings	63,000	63,000	65,748	2,748
Rent	48,900	48,900	46,897	(2,003)
Contributions and Donations	0	0	381	381
Other	0	0	1,461	1,461
<i>Total Revenues</i>	<u>1,670,150</u>	<u>1,670,150</u>	<u>1,686,295</u>	<u>16,145</u>
Expenditures				
Current:				
General Government	619,564	619,564	579,546	40,018
Security of Persons and Property	888,493	888,493	884,316	4,177
Debt Service:				
Principal Retirement	66,696	66,696	63,531	3,165
Interest and Fiscal Charges	304	304	290	14
<i>Total Expenditures</i>	<u>1,575,057</u>	<u>1,575,057</u>	<u>1,527,683</u>	<u>47,374</u>
<i>Excess of Revenues Over Expenditures</i>	95,093	95,093	158,612	63,519
Other Financing Uses				
Proceeds from Sale of Capital Assets	0	0	5,031	5,031
Transfers Out	(163,500)	(163,500)	(76,383)	87,117
<i>Total Other Financing Sources (Uses)</i>	<u>(163,500)</u>	<u>(163,500)</u>	<u>(71,352)</u>	<u>92,148</u>
<i>Net Change in Fund Balance</i>	(68,407)	(68,407)	87,260	155,667
<i>Fund Balance Beginning of Year</i>	144,366	144,366	144,366	0
Prior Year Encumbrances Appropriated	19,389	19,389	19,389	0
<i>Fund Balance End of Year</i>	<u>\$95,348</u>	<u>\$95,348</u>	<u>\$251,015</u>	<u>\$155,667</u>

See accompanying notes to the basic financial statements

City of Wellston, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)*
Fire Levy Fund
For the Year Ended December 31, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property and Other Taxes	\$238,000	\$263,000	\$268,113	\$5,113
Intergovernmental	66,875	65,165	69,604	4,439
Charges for Services	18,175	23,175	19,534	(3,641)
Contributions and Donations	2,130	2,040	1,700	(340)
Other	2,000	7,000	9,245	2,245
<i>Total Revenues</i>	327,180	360,380	368,196	7,816
Expenditures				
Current:				
Security of Persons and Property	333,962	365,335	354,822	10,513
<i>Net Change in Fund Balance</i>	(6,782)	(4,955)	13,374	18,329
<i>Fund Balance Deficit Beginning of Year</i>	(66,300)	(66,300)	(66,300)	0
Prior Year Encumbrances Appropriated	49,552	49,552	49,552	0
<i>Fund Balance Deficit End of Year</i>	(\$23,530)	(\$21,703)	(\$3,374)	\$18,329

See accompanying notes to the basic financial statements

City of Wellston, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)*
Cemetery Fund
For the Year Ended December 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Property Taxes	\$10,000	\$10,000	\$0	(\$10,000)
Charges for Services	5,000	5,000	15,440	10,440
Investment Earnings	3,500	3,500	3,386	(114)
Other	0	0	302	302
<i>Total Revenues</i>	18,500	18,500	19,128	628
Expenditures				
Current:				
Public Health Services	28,662	28,662	14,769	13,893
<i>Excess of Revenues Over (Under) Expenditures</i>	(10,162)	(10,162)	4,359	14,521
Other Financing Sources				
Transfers In	113,500	113,500	25,000	(88,500)
<i>Net Change in Fund Balance</i>	103,338	103,338	29,359	(73,979)
<i>Fund Balance Deficit Beginning of Year</i>	(467,503)	(467,503)	(467,503)	0
Prior Year Encumbrances Appropriated	469	469	469	0
<i>Fund Balance Deficit End of Year</i>	<u>(\$363,696)</u>	<u>(\$363,696)</u>	<u>(\$437,675)</u>	<u>(\$73,979)</u>

See accompanying notes to the basic financial statements

City of Wellston, Ohio
Statement of Fund Net Assets
Enterprise Funds
December 31, 2011

	Water	Sewer	Garbage	Total Enterprise Funds
Assets				
Current:				
Equity in Pooled Cash and Cash Equivalents	\$195,158	\$279,502	\$0	\$474,660
Accounts Receivable	303,292	247,488	20,840	571,620
Intergovernmental Receivable	57,722	0	0	57,722
Restricted Assets:				
Customer Deposits	144,909	0	0	144,909
<i>Total Current Assets</i>	<u>701,081</u>	<u>526,990</u>	<u>20,840</u>	<u>1,248,911</u>
Noncurrent:				
Non-Depreciable Capital Assets	955,646	0	0	955,646
Depreciable Capital Assets, Net	2,678,140	6,554,704	0	9,232,844
<i>Total Noncurrent Assets</i>	<u>3,633,786</u>	<u>6,554,704</u>	<u>0</u>	<u>10,188,490</u>
<i>Total Assets</i>	<u>4,334,867</u>	<u>7,081,694</u>	<u>20,840</u>	<u>11,437,401</u>
Liabilities				
Current:				
Accounts Payable	19,624	20,017	5,192	44,833
Contracts Payable	379,034	0	0	379,034
Accrued Wages and Benefits Payable	8,334	4,400	1,575	14,309
Intergovernmental Payable	35,737	17,808	7,181	60,726
Accrued Interest Payable	3,716	45,350	0	49,066
Interfund Payable	0	0	29,387	29,387
Customer Deposits Payable	144,909	0	0	144,909
OPWC Loans Payable	38,258	3,032	0	41,290
OWDA Loans Payable	86,816	135,279	0	222,095
Loans Payable	7,078	0	0	7,078
General Obligation Bonds Payable	0	17,000	0	17,000
Compensated Absences Payable	16,875	12,062	15,871	44,808
Revenue Bonds Payable	0	42,000	0	42,000
<i>Total Current Liabilities</i>	<u>740,381</u>	<u>296,948</u>	<u>59,206</u>	<u>1,096,535</u>
Long-Term:				
OPWC Loans Payable	181,483	24,256	0	205,739
OWDA Loans Payable	346,461	542,845	0	889,306
General Obligation Bonds Payable	0	585,000	0	585,000
Compensated Absences Payable	21,636	11,227	14,889	47,752
Revenue Bonds Payable	0	1,467,000	0	1,467,000
<i>Total Long-Term Liabilities</i>	<u>549,580</u>	<u>2,630,328</u>	<u>14,889</u>	<u>3,194,797</u>
<i>Total Liabilities</i>	<u>1,289,961</u>	<u>2,927,276</u>	<u>74,095</u>	<u>4,291,332</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	2,973,690	3,738,292	0	6,711,982
Unrestricted (Deficit)	71,216	416,126	(53,255)	434,087
<i>Total Net Assets (Deficit)</i>	<u>\$3,044,906</u>	<u>\$4,154,418</u>	<u>(\$53,255)</u>	<u>\$7,146,069</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, 2011

	Water	Sewer	Garbage	Total Enterprise Funds
Operating Revenues				
Charges for Services	\$1,548,326	\$1,021,414	\$357,065	\$2,926,805
Other	24,035	23,161	267	47,463
<i>Total Operating Revenues</i>	<u>1,572,361</u>	<u>1,044,575</u>	<u>357,332</u>	<u>2,974,268</u>
Operating Expenses				
Personal Services	444,370	261,691	92,866	798,927
Fringe Benefits	237,549	178,168	57,190	472,907
Contractual Services	367,217	211,298	68,918	647,433
Materials and Supplies	159,998	67,934	29,352	257,284
Depreciation	92,275	264,831	0	357,106
<i>Total Operating Expenses</i>	<u>1,301,409</u>	<u>983,922</u>	<u>248,326</u>	<u>2,533,657</u>
<i>Operating Income</i>	<u>270,952</u>	<u>60,653</u>	<u>109,006</u>	<u>440,611</u>
Non-Operating Revenues (Expenses)				
Grants	635,779	0	0	635,779
Interest and Fiscal Charges	(7,171)	(122,400)	0	(129,571)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>628,608</u>	<u>(122,400)</u>	<u>0</u>	<u>506,208</u>
<i>Change in Net Assets</i>	899,560	(61,747)	109,006	946,819
<i>Net Assets (Deficit) Beginning of Year</i>	<u>2,145,346</u>	<u>4,216,165</u>	<u>(162,261)</u>	<u>6,199,250</u>
<i>Net Assets (Deficit) End of Year</i>	<u>\$3,044,906</u>	<u>\$4,154,418</u>	<u>(\$53,255)</u>	<u>\$7,146,069</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, 2011

	Water	Sewer	Garbage	Total Enterprise Funds
Increase (Decrease) in Cash and Cash Equivalents				
Cash Flows from Operating Activities				
Cash Received from Customers	\$1,579,630	\$1,045,634	\$357,895	\$2,983,159
Other Cash Receipts	24,035	23,161	267	47,463
Cash Payments for Employee Services and Benefits	(730,345)	(425,793)	(152,712)	(1,308,850)
Cash Payments for Goods and Services	(480,887)	(281,656)	(99,773)	(862,316)
Utility Deposits Returned	(4,441)	0	0	(4,441)
<i>Net Cash Provided by Operating Activities</i>	<u>387,992</u>	<u>361,346</u>	<u>105,677</u>	<u>855,015</u>
Cash Flows from Noncapital Financing Activities				
Advances In	0	0	29,387	29,387
Advances Out	(50,395)	0	(135,064)	(185,459)
<i>Net Cash Used for Noncapital Financing Activities</i>	<u>(50,395)</u>	<u>0</u>	<u>(105,677)</u>	<u>(156,072)</u>
Cash Flows from Capital and Related Financing Activities				
Proceeds from OWDA Loans	676,348	0	0	676,348
Payments for Capital Acquisitions	(676,347)	0	0	(676,347)
Principal Paid on Revenue Bonds	0	(40,000)	0	(40,000)
Principal Paid on General Obligation Bonds	0	(16,000)	0	(16,000)
Principal Paid on Other Loans	(14,180)	0	0	(14,180)
Principal Paid on OWDA Loans	(85,114)	(132,350)	0	(217,464)
Principal Paid on OPWC Loans	(40,254)	(3,032)	0	(43,286)
Interest Paid on Revenue Bonds	0	(77,400)	0	(77,400)
Interest Paid on General Obligation Bonds	0	(30,848)	0	(30,848)
Interest Paid on Other Loans	(538)	0	0	(538)
Interest Paid on OWDA Loans	(6,795)	(17,107)	0	(23,902)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(146,880)</u>	<u>(316,737)</u>	<u>0</u>	<u>(463,617)</u>
<i>Net Increase in Cash and Cash Equivalents</i>	190,717	44,609	0	235,326
<i>Cash and Cash Equivalents Beginning of Year</i>	149,350	234,893	0	384,243
<i>Cash and Cash Equivalents End of Year</i>	<u>\$340,067</u>	<u>\$279,502</u>	<u>\$0</u>	<u>\$619,569</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating Income	\$270,952	\$60,653	\$109,006	\$440,611
Adjustments:				
Depreciation	92,275	264,831	0	357,106
Changes in Assets and Liabilities:				
Decrease in Accounts Receivable	31,304	24,220	830	56,354
Decrease in Accounts Payable	(24,053)	(5,296)	(1,706)	(31,055)
Increase (Decrease) in Accrued Wages and Benefits Payable	51	(1,002)	39	(912)
Increase in Contracts Payable	67,337	0	0	67,337
Decrease in Intergovernmental Payable	(5,138)	(142)	(1,831)	(7,111)
Decrease in Customer Deposits Payable	(4,441)	0	0	(4,441)
Increase (Decrease) in Compensated Absences Payable	(40,295)	18,082	(661)	(22,874)
<i>Net Cash Provided by Operating Activities</i>	<u>\$387,992</u>	<u>\$361,346</u>	<u>\$105,677</u>	<u>\$855,015</u>

See accompanying notes to the basic financial statements

City of Wellston, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2011

Assets

Equity in Pooled Cash and Cash Equivalents	<u><u>\$16,887</u></u>
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Liabilities

Due to Others	<u><u>\$16,887</u></u>
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See accompanying notes to the basic financial statements

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City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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 Mayor, Auditor, Law Director, and Treasurer are each elected to four year terms. A seven member Council, plus a Council President are elected to two year terms. Department directors and public members of various boards and commissions are appointed by the Mayor or Council.

Reporting Entity

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

A. Basis of Presentation

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Fire Levy Fund - The Fire Levy Special Revenue Fund is used to account for the operation of the Wellston Fire Department.

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

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

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

Proprietary Funds

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

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

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

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

Fiduciary Funds

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

C. Measurement Focus

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

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e.,

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of changes in revenues, expenses, and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

D. Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions

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

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

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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, 2011, but which were levied to finance year 2012 operations have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

E. Budgetary Process

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

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

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

F. Cash and Cash Equivalents

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

During 2011, investments were limited to certificates of deposit, which are reported at cost.

Provisions of the Ohio Revised Code restrict investment procedures. Under existing Ohio statutes all investment earnings are assigned to the General fund unless statutorily required to be credited to a specific fund. During 2011, interest was distributed to the General Fund and to the Cemetery, Recreation, and CDBG Revolving Loan Special Revenue Funds. Interest revenue credited to the General Fund during 2011 amounted to \$65,849, which includes \$62,364 assigned from other City funds.

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

G. Receivables and Payables

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

H. Interfund Balances

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

I. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets in the enterprise funds represent water customer deposits.

J. Capital Assets

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Governmental activities' infrastructure amounts represent capital asset purchases made since January 1, 2004. The City has elected not to retroactively report governmental activities' infrastructure. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of ten thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets are depreciated except for land, certain land improvements, and construction in progress. Improvements are depreciated over the remaining useful life of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

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

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy.

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

L. Accrued Liabilities and Long-Term Obligations

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

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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 Loans	Street Fund, Fire Levy Fund, Sales Tax Fund
Revenue Bonds	Sewer Fund
OWDA Loans	Water Fund and Sewer Fund
OPWC Loans	Water Fund and Sewer Fund
Safe Water Loans	Water Fund
General Obligation Bonds	Sewer Fund
CDBG Loans	CDBG Revolving Loan Fund

M. Fund Balance

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

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans, if any.

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions or enabling legislation (City ordinances).

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party—such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, the committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Assigned Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance, or by State Statute.

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

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first, followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

N. Net Assets

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

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

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

O. Interfund Transactions

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

Internal allocations of overhead expenses from one program to another or within the same program are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

P. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Q. Operating Revenues and Expenses

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City that are either unusual in nature or infrequent in occurrence. During 2011, the City did have any extraordinary item. The extraordinary item was the result of a fire which burned one of the City's buildings and insurance paid the City for the fire loss.

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES

For 2011, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions".

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement did not result in any restatement of the City's balances.

NOTE 4 – ACCOUNTABILITY AND COMPLIANCE

A. Fund Deficits

The following funds had deficit fund balances/net assets as of December 31, 2011:

<u>Fund Type/Fund</u>	<u>Amount</u>
Special Revenue:	
Fire Levy	\$21,527
Cemetery	438,983
Swimming Pool	34,652
Enterprise:	
Garbage	53,255

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

These deficits are due to negative cash balances, combined with adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

B. Legal Compliance

The City's budgetary activity has amounts that ordinarily would result in noncompliance citations under Ohio Revised Code Chapter 570510(H). However, because the City is in Fiscal Emergency, its financial operations fall under the guidelines of Chapter 118. However, contrary to the Ohio Revised Code, the City did not properly encumber all purchase commitments (Section 5705.41(D)(1)), and did not timely deposit all utility receipts (Section 9.38). Additionally, contrary to City of Wellston Ordinances and Policies, the City did not follow delinquent utility account policies (Ordinance 3352), utility account adjustment policies (Policy 4.26(A)), and estimated utility meter readings excessively (Ordinance 51.09).

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Outstanding year end encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP 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	Fire Fund	Cemetery Fund
GAAP Basis	\$96,439	\$19,472	\$28,154
Net Adjustment for Revenue Accruals	49,204	0	233
Net Adjustment for Expenditure Accruals	(47,338)	(954)	972
Encumbrances	(11,045)	(5,144)	0
Budget Basis	\$87,260	\$13,374	\$29,359

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

Interim monies may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations describe in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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

Repurchase agreements, investments in derivatives, and investments in stripped principal or interest obligations that are not issued or guaranteed by the United States, are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Other than corporate notes, commercial paper, and bankers' acceptances, an investment must mature within five years from the date of settlement unless matched to a specific obligation or debt of the City. Investments must be purchased with the expectation that they will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, the carrying amount of the City's deposits was \$4,721,019 and the bank balance was \$4,739,075. Of the bank balance, \$500,000 was covered by Federal depository insurance and \$4,239,075 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of

City of Wellston, Ohio
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For the Year Ended December 31, 2011

money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

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

NOTE 7 - PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2011 for real and public utility property taxes represents collections of 2010 taxes.

2011 real property taxes are levied after October 1, 2011, on the assessed value as of January 1, 2011, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2011 real property taxes are collected in and intended to finance 2012.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2011 public utility property taxes which became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2011, was \$8.70 per \$1,000 of assessed value. The assessed values of real property and public utility tangible property upon which 2011 property tax receipts were based are as follows:

Real Property	\$43,828,450
Public Utility Personal Property	14,856,790
Total	<u>\$58,685,240</u>

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2011, and for which there is an enforceable legal claim. In the general fund and police and fire special revenue fund, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2011 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On an accrual basis, collectible delinquent property taxes have been recorded as revenue while on a modified accrual basis the revenue is deferred.

NOTE 8 - INCOME TAX

The City levies a municipal income tax of one percent on substantially all income earned within the City.

City of Wellston, Ohio
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For the Year Ended December 31, 2011

In addition, the residents of the City are required to pay income tax on income earned outside of the City; however, the City allows a credit for income taxes paid to another municipality.

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

Income tax proceeds are to be used for the purposes of general municipal operations, maintenance of facilities, new equipment, extension and enlargement of municipal services and facilities and capital improvements of the City of Wellston. In 2011, all proceeds were receipted into the General Fund.

NOTE 9 - RECEIVABLES

Receivables at December 31, 2011, consisted primarily of taxes; loans; interfund receivables; intergovernmental receivables arising from grants, entitlements, and shared revenues; and utility accounts. All receivables are considered fully collectible. Delinquent utility accounts receivable (billings for user charged services) are certified and collected as special assessments, subject to foreclosure for nonpayment. The financial statements reflect loans receivable of \$131,973 for principal owed to the City for CDBG and UDAG revolving loan monies loaned to businesses for improvement and expansion efforts. All receivables are expected to be collected within one year, with the exception of delinquent property taxes deemed collectible by the County Auditor and recorded as a receivable in the amount of \$121,360, as well as \$110,195 of the outstanding CDBD and UDAG revolving loan receivables.

A summary of intergovernmental receivables follows:

<u>Governmental Activities:</u>	
Local Government Subsidies	\$42,510
Gasoline Tax	87,658
Motor Vehicle License Tax	25,280
Department of Development Grant	137,442
Total Governmental Activities	<u>292,890</u>
<u>Business-Type Activities:</u>	
OWDA Loan Forgiveness	57,722
Total Intergovernmental Receivables	<u><u>\$350,612</u></u>

NOTE 10 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011, was as follows:

City of Wellston, Ohio
Notes to the Basic Financial Statements
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	Balance 12/31/2010	Additions	Reductions	Balance 12/31/2011
<u>Governmental Activities:</u>				
Non-Depreciable Capital Assets:				
Land	\$103,550	\$0	\$0	\$103,550
Land Improvements	81,141	0	0	81,141
Total Non-Depreciable Capital Assets	<u>184,691</u>	<u>0</u>	<u>0</u>	<u>184,691</u>
Depreciable Capital Assets:				
Land Improvements	27,579	0	0	27,579
Buildings and Improvements	1,071,687	0	(57,751)	1,013,936
Equipment	181,151	10,200	0	191,351
Infrastructure	576,355	0	0	576,355
Vehicles	1,444,327	0	(350,441)	1,093,886
Total Depreciable Capital Assets	<u>3,301,099</u>	<u>10,200</u>	<u>(408,192)</u>	<u>2,903,107</u>
Accumulated Depreciation:				
Land Improvements	(3,447)	(1,379)	0	(4,826)
Buildings and Improvements	(477,905)	(23,945)	27,083	(474,767)
Equipment	(155,629)	(6,444)	0	(162,073)
Infrastructure	(182,562)	(33,307)	0	(215,869)
Vehicles	(814,334)	(47,448)	274,860	(586,922)
Total Accumulated Depreciation	<u>(1,633,877)</u>	<u>(112,523) *</u>	<u>301,943</u>	<u>(1,444,457)</u>
Total Depreciable Capital Assets, Net	<u>1,667,222</u>	<u>(102,323)</u>	<u>(106,249)</u>	<u>1,458,650</u>
Governmental Activities Capital Assets, Net	<u>\$1,851,913</u>	<u>(\$102,323)</u>	<u>(\$106,249)</u>	<u>\$1,643,341</u>

*Depreciation expense was charged to governmental activities as follows:

<u>Governmental Activities:</u>	
Security of Persons and Property	\$35,304
Transportation	48,664
Leisure Time Activities	5,290
Public Health Services	2,907
Community Environment	20,358
Total Depreciation Expense	<u>\$112,523</u>

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

	Balance 12/31/2010	Additions	Reductions	Balance 12/31/2011
<u>Business - Type Activities:</u>				
Non Depreciable Capital Assets:				
Construction in Progress	\$0	\$955,646	\$0	\$955,646
Total Non Depreciable Capital Assets	<u>0</u>	<u>955,646</u>	<u>0</u>	<u>955,646</u>
Depreciable Capital Assets:				
Buildings and Improvements	9,973,756	0	0	9,973,756
Equipment	546,510	0	0	546,510
Infrastructure	4,526,557	0	0	4,526,557
Vehicles	589,269	0	0	589,269
Total Depreciable Capital Assets	<u>15,636,092</u>	<u>0</u>	<u>0</u>	<u>15,636,092</u>
Accumulated Depreciation:				
Buildings and Improvements	(4,197,457)	(249,343)	0	(4,446,800)
Equipment	(309,625)	(32,172)	0	(341,797)
Infrastructure	(987,336)	(60,574)	0	(1,047,910)
Vehicles	(551,724)	(15,017)	0	(566,741)
Total Accumulated Depreciation	<u>(6,046,142)</u>	<u>(357,106)</u>	<u>0</u>	<u>(6,403,248)</u>
Total Depreciable Capital Assets, Net	<u>9,589,950</u>	<u>(357,106)</u>	<u>0</u>	<u>9,232,844</u>
Business - Type Activities Capital Assets, Net	<u>\$9,589,950</u>	<u>\$598,540</u>	<u>\$0</u>	<u>\$10,188,490</u>

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

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

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law enforcement and

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

public safety employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll for members in State and local divisions and 12 percent for law enforcement and public safety members. For the year ended December 31, 2011, members in state and local divisions contributed 10 percent of covered payroll while public safety and law enforcement members contributed 11.0 percent and 11.6 percent, respectively. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. For 2011, member and employer contribution rates were consistent across all three plans.

The City's 2011 contribution rate was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 18.10 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4.0 percent for 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2011. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010, and 2009 were \$109,767, \$112,194, and \$127,735, respectively. For 2011, 91.98 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009. Contributions to the Member-Directed Plan for 2011 were \$6,499 made by the City and \$4,642 made by plan members.

B. Ohio Police and Fire Pension Fund

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

Funding Policy – The Ohio Revised Code requires plan members to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters.

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. The portion of employer contributions used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's contributions to OP&F for police and firefighters pension were \$45,838 and \$22,073 for the year ended December 31, 2011, \$46,059 and \$28,680 for the year ended December 31, 2010, and \$61,354 and \$21,405 for the year ended December 31, 2009, respectively. For 2011, 71.34 percent for police and 65.85 percent for firefighters has been contributed with the balance for both police and firefighters being report as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

City of Wellston, Ohio
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Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

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

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 18.10 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent for 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2011.

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

The City’s contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010, and 2009 were \$43,907, \$63,961, and \$92,362, respectively. For 2011, 91.98 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

City of Wellston, Ohio
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For the Year Ended December 31, 2011

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

B. Ohio Police and Fire Pension Fund

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

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

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

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

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2011, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h). The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$24,267 and \$8,637 for the year ended December 31, 2011, \$24,384 and

City of Wellston, Ohio
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\$11,223 for the year ended December 31, 2010, and \$32,482 and \$8,376 for the year ended December 31, 2009. For 2011, 71.34 percent has been contributed for police and 65.85 percent has been contributed for firefighters with the balance for both police and firefighters being report as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

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 one year's salary in life insurance and accidental death and dismemberment insurance through Sun Life to its full-time employees and part-time employees working a minimum of twenty hours per week.

The City provides comprehensive major medical insurance through Medical Mutual of Ohio. The total monthly premium for single coverage is \$498; for an employee and spouse coverage is \$997; for an employee with one child coverage is \$671; for an employee with two or more children coverage is \$947; family policy with one child coverage is \$1,170; family policy with two or more children coverage is \$1,446. The City pays 100 percent of premiums for elected officials and 90 percent of premiums for all other employees. Premiums are paid from the same funds that pay the employees' salaries.

C. Compensated Absences

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

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

NOTE 14 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has addressed these various types of risks by purchasing comprehensive insurance through commercial carriers.

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

City of Wellston, Ohio
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<u>Type of Coverage</u>	<u>Limit</u>	<u>Aggregate Limit</u>
General Liability	\$1,000,000 Per Occurrence	\$1,000,000
Public Officials Liability	1,000,000 Per Occurrence	1,000,000
Auto Liability	1,000,000 Per Occurrence	
Law Enforcement Professional Liability	1,000,000 Per Occurrence	1,000,000
Employee Dishonesty	1,000,000 Per Occurrence	1,000,000
Property Damage	29,058,918	

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

For 2011, the City paid the state workers' compensation system a premium based on a rate per \$100 of salaries. This rate is calculated based on accidents, history, and administrative costs. The participation in this state mandated insurance fund allows the City to transfer all risk associated with workers compensation.

NOTE 15 - LONG-TERM OBLIGATIONS

Changes in the City's long-term obligations during 2011 consist of the following:

City of Wellston, Ohio
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For the Year Ended December 31, 2011

	Outstanding 12/31/10	Additions	Reductions	Outstanding 12/31/11	Amounts Due Within One Year
<u>Governmental Activities:</u>					
Fire Trucks Loan - 2001 - \$221,000 - 6.04%	\$143,191	\$0	\$10,540	\$132,651	\$11,768
Fire Trucks Loan - 2004 - \$413,052 - 3%	63,531	0	63,531	0	0
Jackson County Commissioners CDBG Loan - 2003 - \$50,000 - 0%	23,334	0	3,333	20,001	3,334
Total Loans	230,056	0	77,404	152,652	15,102
Compensated Absences Payable	92,059	20,309	36,821	75,547	43,532
Total Governmental Activities	<u>\$322,115</u>	<u>\$20,309</u>	<u>\$114,225</u>	<u>\$228,199</u>	<u>\$58,634</u>
<u>Business-Type Activities:</u>					
<u>General Obligation Bonds</u>					
Sewer Farmers Home Administration - 1993 - 5.00%	\$618,000	\$0	\$16,000	\$602,000	\$17,000
<u>Revenue Bonds</u>					
Sewer Farmers Home Administration - 1993 - 5.00%	1,549,000	0	40,000	1,509,000	42,000
<u>OPWC Loans</u>					
Water Line Improvements - 1996 - 0.00%	178,750	0	32,500	146,250	32,500
Water System Renovations - 1992 - 0.00%	5,986	0	3,991	1,995	1,995
South Water Sludge Basin - 2009 - 0.00%	75,259	0	3,763	71,496	3,763
Green Acres Sewer Line - 2000 - 0.00%	30,320	0	3,032	27,288	3,032
Total OPWC Loans Payable	<u>290,315</u>	<u>0</u>	<u>43,286</u>	<u>247,029</u>	<u>41,290</u>
<u>OWDA Loans</u>					
Water Line Improvement - 1995 - 2.00%	339,785	0	82,442	257,343	84,092
Sewer Fund - 1996 - 2.20%	297,575	0	51,475	246,100	52,613
Sewer Fund - 2001 - 2.20%	512,899	0	80,875	432,024	82,666
Water Fund - 2010 - 3.00%	80,315	0	2,672	77,643	2,724
North Water Treatment Plant - 2011 - 0%	0	284,200	284,200	0	0
Jenkins Water Tank Replacement - 2011 - 2%	0	392,148	293,857	98,291	0
Total OWDA Loans Payable	<u>1,230,574</u>	<u>676,348</u>	<u>795,521</u>	<u>1,111,401</u>	<u>222,095</u>
<u>Other Loans</u>					
WSOS Community Action Safe Water - 2002 - 3.00%	21,258	0	14,180	7,078	7,078
Compensated Absences Payable	115,434	43,914	66,788	92,560	44,808
Total Business-Type Activities	<u>\$3,824,581</u>	<u>\$720,262</u>	<u>\$975,775</u>	<u>\$3,569,068</u>	<u>\$374,271</u>

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

As of December 31, 2011, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$6,009,298, with an unvoted debt margin of \$3,075,036.

City of Wellston, Ohio
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Governmental Activities:

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

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

The annual requirements to retire all governmental loans outstanding as of December 31, 2011, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2012	\$15,102	\$5,897
2013	15,924	4,718
2014	16,413	4,209
2015	16,922	3,680
2016	17,485	3,138
2017-2020	70,806	6,558
	<u>\$152,652</u>	<u>\$28,200</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, 2011, are:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2012	\$17,000	\$30,100
2013	18,000	29,250
2014	19,000	28,350
2015	19,000	27,400
2016	20,000	26,450
2017-2021	119,000	115,950
2022-2026	151,000	83,150
2027-2031	194,000	41,300
2032	45,000	2,250
	<u>\$602,000</u>	<u>\$384,200</u>

Revenue Bonds

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Principal and interest requirements to retire the City's revenue bonds outstanding at December 31, 2011, are:

Year	Principal	Interest
2012	\$42,000	\$75,450
2013	44,000	73,350
2014	47,000	71,150
2015	49,000	68,800
2016	51,000	66,350
2017-2021	297,000	290,650
2022-2026	381,000	208,550
2027-2031	486,000	103,300
2032	112,000	5,600
	<u>\$1,509,000</u>	<u>\$963,200</u>

OPWC Loans

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

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

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

Principal requirements to retire the City's OPWC loans outstanding at December 31, 2011 are:

Year	Principal
2012	\$41,290
2013	39,295
2014	39,295
2015	39,295
2016	23,045
2017-2021	30,943
2022-2026	18,815
2027-2030	15,051
Total	<u>\$247,029</u>

OWDA Loans

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

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

An OWDA loan was obtained in 2010 in the amount of \$81,729 for water system improvements. Repayment will be made from user fees and will be paid off in 2040.

An OWDA loan was obtained in 2011 for replacement of the Jenkins Water Tank. Repayment will be made from user fees and a loan forgiveness grant. The loan is not complete and an amortization schedule is not yet available.

An OWDA loan was obtained in 2011 for upgrades to the North Water Treatment Plant. Repayment will be made from user fees and a loan forgiveness grant. The loan is not complete and an amortization schedule is not yet available.

Principal and interest requirements to retire the City's enterprise OWDA loans outstanding at December 31, 2011, are as follow:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2012	\$222,095	\$19,325
2013	226,767	14,651
2014	231,533	9,888
2015	147,181	5,002
2016	121,511	1,800
2017-2021	13,620	0
2022-2026	13,620	0
2027-2031	13,620	0
2032-2036	13,620	0
2037-2040	9,543	0
Total	<u>\$1,013,110</u>	<u>\$50,666</u>

Other Loans

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

Principal and interest requirements to retire the City's other loans outstanding at December 31, 2011, were:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2012	<u>\$7,078</u>	<u>\$280</u>

Pledged Revenues

The City has pledged future customer water revenues, net of specified operating expenses, to repay \$1,113,654 in Ohio Water Development Authority loans issued in 1995, as well as \$81,729 issued in 2010. The loans are payable solely from customer net revenues. The final loan payment will be in 2039. Net revenues include all revenues received by the water utility less all operating expenses other than depreciation expense. Annual principal and interest payments on the loans are expected to require 35 percent of net revenues. The total principal and interest remaining to be paid on the loans is \$345,358. Principal and interest payments for the current year were \$91,909, net revenues were \$262,405 and total revenues were \$1,572,361.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

The City has pledged future customer sewer revenues, net of specified operating expenses, to repay \$2,000,000 in revenue bonds issued in 1993, as well as a \$930,173 Ohio Water Development Authority loan issued in 1996 and a \$1,221,145 Ohio Water Development Authority loan issued in 2001. The bonds and loan are payable solely from customer net revenues and are payable through 2032. Net revenues include all revenues received by the sewer utility less all operating expenses other than depreciation expense. Annual principal and interest payments on the bonds and loan are expected to require 82 percent of net revenues. The total principal and interest remaining to be paid on the bonds and loan is \$3,190,618. Principal and interest payments for the current year were \$266,857, net revenues were \$325,484 and total revenues were \$1,044,575.

NOTE 16 - INTERFUND BALANCES

Interfund Receivable and Interfund Payable balances at December 31, 2011, consist of the following:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General	\$516,089	\$253,790
 <u>Special Revenue Funds:</u>		
Street	0	14,142
Cemetery	0	437,908
Swimming Pool	0	34,652
	<hr/>	<hr/>
Total Special Revenue Funds	0	486,702
 <u>Capital Projects Fund:</u>		
Permanent Investment Capital Improvement Fund	253,790	0
	<hr/>	<hr/>
 <u>Enterprise Funds:</u>		
Garbage	0	29,387
	<hr/>	<hr/>
Total	<u>\$769,879</u>	<u>\$769,879</u>

The advances from the General Fund to Special Revenue and Enterprise Funds are due to negative cash balances at year end. The General Fund did not have enough cash at year end to cover all negative cash balances, so an advance was made to the General Fund from the Permanent Investment Capital Projects Fund. These advances will all be repaid in 2012.

NOTE 17 – RELATED PARTY TRANSACTIONS

During 2011, the City acquired various services from Clark’s Garage for a total of \$2,453. This local business is owned by Council Member Tom Clark.

In 2006, Patrick West, former Downtown Revitalization Director, acquired a loan through the City’s revolving loan program in the amount of \$15,000 for his personal business while in the position of Downtown Revitalization Director. The loan was granted for a seven year term at an interest rate of 3.25%. Payments on this loan in 2011 totaled \$1,400. The balance on this loan as of December 31, 2011, is \$6,989 and it is currently in default. The last payment made on this loan was October 2011.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

NOTE 18 - CONTRACTUAL COMMITMENTS

At December 31, 2011, the City had the following contractual commitments:

Project	Fund	Purchase Commitments	Amount Paid as of 12/31/2011	Amount Remaining on Contracts
Jenkins Water Tank	Water Enterprise Fund	\$703,660	\$606,343	\$97,317
North Water Plant Improvements	Water Enterprise Fund	736,337	335,351	400,986
Frick-Gallagher Site Cleanup	Frick-Gallagher Special Revenue Fund	778,163	270,268	507,895

NOTE 19 - CONTINGENT LIABILITIES

A. Litigation

The City is currently party to legal proceedings. The possible outcome or effects on the financial statements cannot be determined at year end.

B. Federal and State Grants

For the period January 1, 2011, to December 31, 2011, the City received federal and state grants for specific purposes that are subject to review and audit by grantor agencies or their designee. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any, would be immaterial.

NOTE 20 – FISCAL EMERGENCY DECLARATION

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

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

CITY OF WELLSTON
JACKSON COUNTY

FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2011

FEDERAL GRANTOR / <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
<u>UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
<i>Passed Through Ohio Department of Development:</i>			
Community Development Block Grant - State's Program	A-C-10-2EN-1	14.228	\$115,879
	A-D-08-199-1	14.228	50,570
Revolving Loan	N/A	14.228	31,427
Housing Program Income	N/A	14.228	<u>10,658</u>
Total Community Development Block Grant - State's Program			208,534
HOME Investment Partnerships Program	A-C-10-2EN-2	14.239	<u>27,476</u>
Total United States Department of Housing and Urban Development			236,010
<u>UNITED STATES DEPARTMENT OF JUSTICE COMMUNITY ORIENTED POLICING SERVICES</u>			
<i>Direct from the Federal Government</i>			
Community Oriented Policing Services Hiring Program	2010UMWX0242	16.710	<u>58,338</u>
Total United States Department of Justice Community Oriented Policing Services			58,338
<u>UNITED STATES DEPARTMENT OF ENVIRONMENTAL PROTECTION</u>			
<i>Passed Through Ohio Water Development Authority</i>			
Capitalization Grants for Clean Water State Revolving Funds	5893/5894	66.468	<u>576,355</u>
Total United States Department of Environmental Protection			576,355
<u>UNITED STATES DEPARTMENT OF HOMELAND SECURITY</u>			
<i>Direct from the Federal Government</i>			
Assistance to Firefighters Grant Program	EMW-2007-FO-12403	97.044	<u>41,354</u>
Total United States Department of Homeland Security			<u>41,354</u>
Total Federal Awards Expenditures			<u>\$ 912,057</u>

The Notes to the Federal Awards Expenditures Schedule are an integral part of the Schedule.

**CITY OF WELLSTON
JACKSON COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the City of Wellston's (the City's) federal award programs' disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) REVOLVING LOAN PROGRAMS

The City has a revolving loan fund (RLF) program to provide low-interest loans to businesses to create jobs for low to moderate income persons. The Schedule reports loans made and administrative costs as disbursements on the Schedule. Subsequent loans are subject to the same compliance requirements imposed by HUD as the initial loans.

Activity in the CDBG revolving loan fund during 2011 is as follows:

Beginning loans receivable balance as of January 1, 2011	\$9,245
Loans made	0
Loan principal repaid	9,245
Ending loans receivable balance as of December 31, 2011	\$0
Cash balance on hand in the revolving loan fund as of December 31, 2011	\$32,955



Dave Yost • Auditor of State

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

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

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wellston, Jackson County, Ohio (the City), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 13, 2012, wherein we noted the City is experiencing financial difficulties and is in fiscal emergency. The Auditor of State served during the year ended December 31, 2011 as the City's financial supervisor under Ohio Rev. Code §118.05 (G). Government Auditing Standards considers this service to impair the independence of the Auditor of State to the audit the City because the Auditor of State may assume broad management powers, duties and functions under Ohio Rev. Code §118.04. However, Government Auditing Standards permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 118.05 (G) requires the Auditor of State to provide these supervisory services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. In addition, we noted the City has adopted Governmental Accounting Standards Board Statement No. 54. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that we consider significant deficiencies in internal control over financial reporting. We consider findings 2011-001 and 2011-003 through 2011-005 to be significant deficiencies. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2011-001 through 2011-005.

We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated September 13, 2012.

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

We intend this report solely for the information and use of management, the City Council, others within the City, federal awarding agencies, and pass-through entities. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

September 13, 2012



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the City Council:

Compliance

We have audited the compliance of City of Wellston, Jackson County, Ohio (the City), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to the City of Wellston's major federal program for the year ended December 31, 2011. The *Summary of Auditor's Results* section of the accompanying Schedule of Findings identifies the City's major federal program. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the City's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with these requirements.

In our opinion, the City of Wellston complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the year ended December 31, 2011.

Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the City's internal control over compliance.

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

prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We intend this report solely for the information and use of management, the City Council, others within the City, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

September 13, 2012

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Capitalization Grants for Clean Water State Revolving Funds – CFDA #66.468
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2011-001

Noncompliance Citation and Significant Deficiency

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.

If the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, public office 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 three business days after receiving it. Only the legislative

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2011
(Continued)**

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

FINDING NUMBER 2011-001 (Continued)

Noncompliance Citation and Significant Deficiency - (Continued)

authority may adopt the policy. The policy must include provisions and procedure 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.

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 the 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.

Sixty-two percent of the daily receipts tested in the City Clerk's office were not deposited within 24 hours of receipt and there was no indication of a policy which would allow deposits to be held past one business day. In addition, batch number 102 dated January 3, 2012 included stubs with paid dates ranging from December 1, 2011 through January 4, 2012. This resulted in funds not being made available for use on a timely basis and indicates lapping of funds which did result in theft of the undeposited funds. The employee has been dismissed and has also been indicted by the Jackson County Prosecutor.

We recommend the deposits be made within 24 hours of receipt. Alternatively, the City Council could adopt a policy allowing daily receipts of less than \$1,000 to be deposited no later than 3 business days following receipt.

Officials Response:

The deposits are being made within a twenty four hour period. It will be brought to a vote of Council to approve making the deposits of less than \$1,000 within a three business day period.

FINDING NUMBER 2011-002

Noncompliance Citation

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

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

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2011
(Continued)**

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

FINDING NUMBER 2011-002 (Continued)

Noncompliance Citation - (Continued)

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

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

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

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

Twenty-four percent of the transactions tested were not certified by the City Auditor at the time the commitment was incurred and there was no evidence that the City followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

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

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

Officials Response:

The number of purchase orders processed by our office numbers in the hundreds and the number of mis-steps cited were three. Had we used the option of the "then and now" certificate, the citation may have been avoided. We have since adopted a philosophy of using "then and now" certificates when appropriate.

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2011
(Continued)**

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

FINDING NUMBER 2011-003

Noncompliance Citation and Significant Deficiency

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

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

The City was carrying a total of \$437,979 in delinquent closed accounts at December 31, 2011. In addition, testing indicated 37% of elected officials' and employees' utility accounts tested carried delinquent balances throughout the year. Elected officials', employees', and former employees' delinquent accounts at December 31, 2011 totaled \$5,519. There was no indication on the part of the City to collect these accounts during 2011 or shut off all delinquent accounts. This practice has resulted in a significant loss of revenue for the City. Delinquent balances result in funds not being made available for the use of the City for payment of current obligations.

We recommend the City act in accordance with the ordinances listed above. In particular, the City should follow Ordinance 51.02(G) regarding the termination of water service on delinquent accounts including employees and their families. In addition, the City should follow the measures outlined in Ordinance 3352 to collect the outstanding balances on closed accounts.

Officials Response:

We are disconnecting the delinquent accounts according to our ordinances. We are in the process of merging delinquent accounts when applicable to current accounts. There were many accounts in the past that were just "closed" to stop the billing process, and then "re-opened" in the same name. This no longer occurs and we are in the process of correcting what has occurred in the past. We are not making exceptions for employees or their families. In fact, a memo has been issued to employees that the City will not tolerate them being on the disconnect list. We are in the process of placing liens on properties where it is legal for us to do so. I have established a committee that is in the process of correcting and updating our ordinances relating to our water utilities. We are also going to establish a policy and procedure manual that will be followed by the clerk's office.

FINDING NUMBER 2011-004

Noncompliance Citation and Significant Deficiency

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

City of Wellston Ordinance 51.11 established the Water and Sewer Charges Review Board (the "Board"). Per Section (B), the purpose of the Board shall be to hear and decide appeals from any persons affected by any matter. Matter is defined for the use in this section, as any measurement, order, requirement,

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2011
(Continued)**

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

FINDING NUMBER 2011-004 (Continued)

Noncompliance Citation and Significant Deficiency - (Continued)

decision or determination made by the Water and Sewer Department relating to rates or charges for city water or sewer services. Per Section (D), all meetings of the Board shall be conducted in such open, public session as may be otherwise required by the Sunshine Law of the State of Ohio. Pursuant to Section (F), all decisions of the Board shall be subject to review at the discretion of the City Council.

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

Although the Water and Sewer Charges Review Board was established and meetings were scheduled on a monthly basis, minutes indicated the Board often cancelled meetings and there were also indications that minutes were not maintained for all meetings.

Credit adjustments to utility accounts in 2011 totaled \$767,660. Board of Review minutes indicated the Board met four times during 2011. However, credit adjustments were noted throughout the year.

Our testing of adjustments indicated errors totaling \$19,276 for adjustments that were not supported by a work order. In addition, our testing indicated errors totaling \$272,383 for adjustments where the work order did not support the reason code in the computer system.

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

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

Officials Response:

The policies, procedures and ordinances that are referred to in 2011-003 could possibly eliminate the Water Review Board. Once they are established and followed, there will be no need for this board. If a customer does not feel they have been dealt with fairly they will be advised to attend the next council meeting to state their case. But this will be the decision of council.

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2011
(Continued)**

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

FINDING NUMBER 2011-005

Noncompliance Citation and Significant Deficiency

Ordinance 51.09 states that estimated monthly accounts based on the prior two months of water consumption may be used in rendering statements to customers, providing that an actual meter reading shall be made or attempted to be made once every two months. Ordinance 53.03(A) provides that the customer shall assure that the meter is accessible to the meter reader. Ordinance 53.03(C) provides that whomever violates section (A) shall be subject to termination of water service.

Meters were not read for the billing periods of August through December, 2011. Testing indicated some accounts were estimated for additional months as well. In addition, testing of new accounts indicated that 26% of new accounts tested did not include a work order with a beginning meter reading. Receipts for water and sewer service are a significant source of revenue for the City. Accurate and timely meter readings are an important control to assure the City is billing accurately for these services as well as determining the reasonableness of adjustments.

The lack of timely meter readings has resulted in loss of revenue to the City for inaccurate billings as well as unsubstantiated adjustments.

We recommend all meters be read monthly in accordance with ordinance 51.09. Meters which are broken should be repaired or replaced promptly to allow for proper billing and to provide management with timely information required for proper oversight of the utility department.

Officials Response:

We are reading all meters each month. We have had issues with the software that has caused the bills to be estimated. But we are reading them nonetheless. We are getting that corrected. We are reading the vacant meters as well. Our meter readers are very observant and they report any irregularities that they find during the reading process. We are replacing dead meters as we can afford to buy them. We are updating the radio meters with new batteries. We are in the process of replacing inaccessible meters (such as in the basement) which have not been read in months, with radio read meters.

3. FINDINGS FOR FEDERAL AWARDS

None

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2010-001	Ohio Rev. Code Section 5705.41(D)(1) – Failure to encumber properly.	No	Not Corrected; repeated in the current audit Schedule of Findings as Finding 2011-002.
2010-002	Ohio Rev. Code Section 9.38– Timely Deposit	No	Not Corrected; repeated in the current audit Schedule of Findings as Finding 2011-001.
2010-003	Noncompliance Citation and Significant Deficiency – Utility Department was not handling delinquent accounts in accordance with City Ordinance.	No	Not Corrected; repeated in the current audit Schedule of Findings as Finding 2011-003.
2010-04	Noncompliance Citation and Significant Deficiency – Utility Department was not handling account adjustments in accordance with City Ordinance.	No	Not Corrected; repeated in the current audit Schedule of Findings as Finding 2011-004.
2010-05	Noncompliance Citation and Significant Deficiency – Utility Department was not handling meter readings in accordance with City Ordinance.	No	Not Corrected; repeated in the current audit Schedule of Findings as Finding 2011-005.
2010-006	Significant Deficiency – Budgetary Accounts should be integrated into the Computer System	Yes	

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Dave Yost • Auditor of State

CITY OF WELLSTON

JACKSON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
OCTOBER 16, 2012