



**Auditor of State  
Betty Montgomery**



**CITY OF WELLSTON  
JACKSON COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

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

To the City Council:

We have audited the accompanying general purpose financial statements of the City of Wellston, Jackson County, Ohio (the City), as of and for the year ended December 31, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Wellston, Jackson County, as of December 31, 2003 and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2005, 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. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and you should read it in conjunction with this report in assessing the results of our audit.

A handwritten signature in cursive script that reads "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

March 3, 2005

743 E. State St. / Athens Mall Suite B / Athens, OH 45701  
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

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City of Wellston, Ohio  
 Combined Balance Sheet  
 All Fund Types and Account Groups  
 December 31, 2003

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
<u>Assets and Other Debit:</u>			
<u>Assets:</u>			
Equity in Pooled Cash and			
Cash Equivalents	\$151,041	\$913,821	\$7,042
Investments	0	2,274,704	0
Receivables:			
Taxes	544,553	403,634	0
Accounts	0	0	0
Accrued Interest	0	25,425	0
Loans	0	408,705	0
Interfund	74,478	0	0
Intergovernmental	42,509	100,366	0
Notes Receivable	0	0	0
Prepaid Items	7,607	4,900	0
Restricted Assets:			
Customer Deposits	0	0	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0
 <u>Other Debit:</u>			
Amount to be Provided from General Government Resources	0	0	0
Total Assets and Other Debit	\$820,188	\$4,131,555	\$7,042

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		Trust and Agency	General Fixed Assets	
Enterprise				
\$234,271	\$168,305	\$	\$	\$1,474,480
0	158,540	0	0	2,433,244
0	0		0	948,187
223,171	0	0	0	223,171
0	1,070	0	0	26,495
0	0	0	0	408,705
0	0	0	0	74,478
0	0	0	0	142,875
280,000	0	0	0	280,000
25,294	0	0	0	37,801
202,691	0	0	0	202,691
11,781,511	0	4,729,935	0	16,511,446
0	0	0	629,752	629,752
<u>\$12,746,938</u>	<u>\$327,915</u>	<u>\$4,729,935</u>	<u>\$629,752</u>	<u>\$23,393,325</u>

(continued)

City of Wellston, Ohio  
 Combined Balance Sheet  
 All Fund Types and Account Groups (Continued)  
 December 31, 2003

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Liabilities, Fund Equity, and Other Credits:			
<u>Liabilities:</u>			
Accounts Payable	\$5,234	\$18,569	\$
Contracts Payable	0	23,165	0
Accrued Wages and Benefits Payable	22,702	10,482	0
Compensated Absences Payable	0	0	0
Interfund Payable	0	3,521	0
Intergovernmental Payable	10,016	3,379	0
Deferred Revenue	245,923	453,785	0
Due to Others	0	0	0
Accrued Interest Payable	0	0	0
Notes Payable	0	0	0
OWDA Loans Payable	0	0	0
Payable from Restricted Assets:			
Customer Deposits	0	0	0
General Obligation Bonds Payable	0	0	0
Retirement Benefits Payable	0	0	0
Revenue Bonds Payable	0	0	0
	283,875	512,901	0
Total Liabilities			
<u>Fund Equity and Other Credits:</u>			
Investment in General Fixed Assets	0	0	0
Contributed Capital	0	0	0
Retained Earnings:			
Unreserved	0	0	0
Fund Balances:			
Reserved for Encumbrances	6,322	132,843	0
Reserved for Endowments	0	0	0
Reserved for Loans	0	408,705	0
Unreserved, Undesignated	529,991	3,077,106	7,042
	536,313	3,618,654	7,042
Total Fund Equity and Other Credits			
Total Liabilities, Fund Equity, and Other Credits	\$820,188	\$4,131,555	\$7,042

See accompanying notes to the general purpose financial statements

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		Trust and Agency	General Fixed Assets	
Enterprise				
\$57,571	\$	\$	\$	\$81,374
16,140	0	0	0	39,305
27,582	0	0	0	60,766
44,072	0	0	58,062	102,134
70,957	0	0	0	74,478
66,971	0	0	0	80,366
0	0	0	0	699,708
0	11,767	0	0	11,767
77,356	0	0	0	77,356
1,028,467	0	0	502,898	1,531,365
2,550,373	0	0	0	2,550,373
202,691	0	0	0	202,691
711,000	0	0	0	711,000
0	0	0	68,792	68,792
2,209,571	0	0	0	2,209,571
<u>7,062,751</u>	<u>11,767</u>	<u>0</u>	<u>629,752</u>	<u>8,501,046</u>
0	0	4,729,935	0	4,729,935
3,944,677	0	0	0	3,944,677
1,739,510	0	0	0	1,739,510
0	0	0	0	139,165
0	204,347	0	0	204,347
0	0	0	0	408,705
0	111,801	0	0	3,725,940
<u>5,684,187</u>	<u>316,148</u>	<u>4,729,935</u>	<u>0</u>	<u>14,892,279</u>
<u>\$12,746,938</u>	<u>\$327,915</u>	<u>\$4,729,935</u>	<u>\$629,752</u>	<u>\$23,393,325</u>

City of Wellston  
 Combined Statement of Revenues, Expenditures  
 and Changes in Fund Balances  
 All Governmental Fund Types  
 For the Year Ended December 31, 2003

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
<u>Revenues:</u>				
Property and Other Taxes	\$264,259	\$630,017	\$	\$894,276
Municipal Income Taxes	939,454	0	0	939,454
Intergovernmental	373,799	264,788	0	638,587
Charges for Services	300	50,860	0	51,160
Fines, Licenses, and Permits	22,369	31,526	0	53,895
Program Income	0	71,587	0	71,587
Interest	81,139	21,488	0	102,627
Other	110,351	98,494	4,241	213,086
<b>Total Revenues</b>	<b>1,791,671</b>	<b>1,168,760</b>	<b>4,241</b>	<b>2,964,672</b>
<u>Expenditures:</u>				
Current:				
General Government	513,311	157,526	0	670,837
Security of Persons and Property	883,273	630,582	0	1,513,855
Public Health Services	0	112,983	0	112,983
Leisure Time Activities	0	74,367	0	74,367
Transportation	0	282,436	0	282,436
Community Environment	0	7,254	0	7,254
Debt Service:				
Principal Retirement	46,667	9,767	0	56,434
Interest and Fiscal Charges	340	6,974	0	7,314
<b>Total Expenditures</b>	<b>1,443,591</b>	<b>1,281,889</b>	<b>0</b>	<b>2,725,480</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>348,080</b>	<b>(113,129)</b>	<b>4,241</b>	<b>239,192</b>
<u>Other Financing Sources (Uses):</u>				
Loss on Investments		(12,500)		(12,500)
Proceeds of Notes	0	253,983	0	253,983
Operating Transfers In	0	77,350	0	77,350
Operating Transfers Out	(139,882)	0	0	(139,882)
<b>Total Other Financing Sources (Uses)</b>	<b>(139,882)</b>	<b>318,833</b>	<b>0</b>	<b>178,951</b>
<b>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<b>208,198</b>	<b>205,704</b>	<b>4,241</b>	<b>418,143</b>
<b>Fund Balances (Deficits) at Beginning of Year - Restated (See Note 3)</b>	<b>330,927</b>	<b>3,424,685</b>	<b>2,801</b>	<b>3,758,413</b>
<b>Decrease in Reserve for Inventory</b>	<b>(2,812)</b>	<b>(11,735)</b>	<b>0</b>	<b>(14,547)</b>
<b>Fund Balances (Deficits) at End of Year</b>	<b>\$536,313</b>	<b>\$3,618,654</b>	<b>\$7,042</b>	<b>\$4,162,009</b>

See accompanying notes to the general purpose financial statements

City of Wellston, Ohio  
 Combined Statement of Revenues, Expenditures and Changes  
 in Fund Balances - Budget and Actual (Budget Basis)  
 All Governmental Fund Types  
 For the Year Ended December 31, 2003

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Property and Other Taxes	\$237,789	\$264,259	\$26,470
Municipal Income Taxes	662,331	746,818	84,487
Intergovernmental	532,679	381,195	(151,484)
Charges for Services	419	300	(119)
Fines, Licenses, and Permits	31,258	22,369	(8,889)
Program Income	0	0	0
Interest	112,582	80,566	(32,016)
Other	154,204	110,351	(43,853)
<b>Total Revenues</b>	<b>1,731,262</b>	<b>1,605,858</b>	<b>(125,404)</b>
<u>Expenditures:</u>			
Current:			
General Government	756,330	548,959	207,371
Security of Persons and Property	896,276	882,672	13,604
Public Health Services		0	0
Leisure Time Activities		0	0
Transportation		0	0
Community Environment	25,000	0	25,000
Capital Outlay	129,950	0	129,950
Debt Service:			
Principal Retirement	86,500	46,667	39,833
Interest and Fiscal Charges	2,000	1,524	476
<b>Total Expenditures</b>	<b>1,896,056</b>	<b>1,479,822</b>	<b>416,234</b>
Excess of Revenues Over/(Under) Expenditures	(164,794)	126,036	290,830
<u>Other Financing Sources (Uses):</u>			
Proceeds of Notes	0	0	0
Operating Transfers In	0	0	0
Operating Transfers Out	(147,050)	(139,882)	7,168
<b>Total Other Financing Sources (Uses)</b>	<b>(147,050)</b>	<b>(139,882)</b>	<b>7,168</b>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(311,844)	(13,846)	297,998
Fund Balances (Deficits) at Beginning of Year	202,906	202,906	0
Prior Year Encumbrances Appropriated	28,191	28,191	0
<b>Fund Balances (Deficits) at End of Year</b>	<b>(\$80,747)</b>	<b>\$217,251</b>	<b>\$297,998</b>

(Continued)

See accompanying notes to the general purpose financial statements

City of Wellston, Ohio  
 Combined Statement of Revenues, Expenditures and Changes  
 in Fund Balances - Budget and Actual (Budget Basis)  
 All Governmental Fund Types  
 For the Year Ended December 31, 2003  
 (Continued)

	Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Property and Other Taxes	\$437,266	\$629,721	\$192,455
Municipal Income Taxes	0	0	0
Intergovernmental	245,467	279,640	34,173
Charges for Services	44,645	50,860	6,215
Fines, Licenses, and Permits	27,673	31,526	3,853
Program Income	132,781	151,266	18,485
Interest	19,169	21,838	2,669
Other	86,458	98,494	12,036
<b>Total Revenues</b>	<b>993,459</b>	<b>1,263,345</b>	<b>269,886</b>
<u>Expenditures:</u>			
Current:			
General Government	188,200	164,891	23,309
Security of Persons and Property	494,818	600,804	(105,986)
Public Health Services	113,776	119,464	(5,688)
Leisure Time Activities	54,115	75,436	(21,321)
Transportation	418,663	397,478	21,185
Community Environment	188,167	107,439	80,728
Capital Outlay	45,800	46,946	(1,146)
Debt Service:			
Principal Retirement	9,750	9,767	(17)
Interest and Fiscal Charges	12,914	12,914	0
<b>Total Expenditures</b>	<b>1,526,203</b>	<b>1,535,139</b>	<b>(8,936)</b>
<b>Excess of Revenues Over/(Under) Expenditures</b>	<b>(532,744)</b>	<b>(271,794)</b>	<b>260,950</b>
<u>Other Financing Sources (Uses):</u>			
Proceeds of Notes	222,945	253,983	31,038
Operating Transfers In	67,898	77,350	9,452
Operating Transfers Out	0	0	0
<b>Total Other Financing Sources (Uses)</b>	<b>290,843</b>	<b>331,333</b>	<b>40,490</b>
<b>Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses</b>	<b>(241,901)</b>	<b>59,539</b>	<b>301,440</b>
Fund Balances (Deficits) at Beginning of Year	2,840,329	2,840,329	0
Prior Year Encumbrances Appropriated	124,796	124,796	0
<b>Fund Balances (Deficits) at End of Year</b>	<b>\$2,723,224</b>	<b>\$3,024,664</b>	<b>\$301,440</b>

Capital Projects Funds			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$ 0	\$ 0	\$ 0	\$675,055	\$893,980	\$218,925
0	0	0	662,331	746,818	84,487
0	0	0	778,146	660,835	(117,311)
0	0	0	45,064	51,160	6,096
0	0	0	58,931	53,895	(5,036)
0	0	0	132,781	151,266	18,485
0	0	0	131,751	102,404	(29,347)
2,199	4,241	2,042	242,861	213,086	(29,775)
2,199	4,241	2,042	2,726,920	2,873,444	146,524
0	0	0	944,530	713,850	230,680
0	0	0	1,391,094	1,483,476	(92,382)
4,000	0	4,000	117,776	119,464	(1,688)
0	0	0	54,115	75,436	(21,321)
0	0	0	418,663	397,478	21,185
0	0	0	213,167	107,439	105,728
0	0	0	175,750	46,946	128,804
0	0	0	96,250	56,434	39,816
0	0	0	14,914	14,438	476
4,000	0	4,000	3,426,259	3,014,961	411,298
(1,801)	4,241	6,042	(699,339)	(141,517)	557,822
0	0	0	222,945	253,983	31,038
0	0	0	67,898	77,350	9,452
0	0	0	(147,050)	(139,882)	7,168
0	0	0	143,793	191,451	47,658
(1,801)	4,241	6,042	(555,546)	49,934	605,480
2,201	2,201	0	3,045,436	3,045,436	0
600	600	0	153,587	153,587	0
\$1,000	\$7,042	\$6,042	\$2,643,477	\$3,248,957	\$605,480

City of Wellston, Ohio  
 Combined Statement of Revenues,  
 Expenses and Changes in Fund Equity  
 Proprietary Fund Type and Similar Fiduciary Funds  
 For the Year Ended December 31, 2003

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Non-Expendable Trust	
<u>Revenues:</u>			
Charges for Services	\$2,830,049	\$	\$2,830,049
Interest	0	7,268	7,268
Other Operating Revenues	195,010	0	195,010
<b>Total Revenues</b>	<b>3,025,059</b>	<b>7,268</b>	<b>3,032,327</b>
<u>Expenses:</u>			
Salaries and Wages	866,763	0	866,763
Fringe Benefits	373,364	0	373,364
Contractual Services	453,753	0	453,753
Materials and Supplies	666,707	0	666,707
Purchased Services	93,613	0	93,613
Depreciation	400,941	0	400,941
Other Expenses	16,062	0	16,062
<b>Total Expenses</b>	<b>2,871,203</b>	<b>0</b>	<b>2,871,203</b>
<b>Operating Income</b>	<b>153,856</b>	<b>7,268</b>	<b>161,124</b>
<u>Non-Operating Revenues (Expenses):</u>			
Interest Income	206	0	206
Intergovernmental Revenue	79,104	0	79,104
Interest and Fiscal Charges	(196,489)	0	(196,489)
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(117,179)</b>	<b>0</b>	<b>(117,179)</b>
<b>Income Before Transfers</b>	<b>36,677</b>	<b>7,268</b>	<b>43,945</b>
<b>Operating Transfers In</b>	<b>62,532</b>	<b>0</b>	<b>62,532</b>
<b>Net Income</b>	<b>99,209</b>	<b>7,268</b>	<b>106,477</b>
Retained Earnings/Fund Balance at Beginning of Year - Restated (See Note 3)	1,640,301	308,880	1,949,181
Retained Earnings/Fund Balance at End of Year	1,739,510	316,148	2,055,658
Contributed Capital at Beginning and End of Year	3,944,677	0	3,944,677
<b>Total Fund Equity at End of Year</b>	<b>\$5,684,187</b>	<b>\$316,148</b>	<b>\$6,000,335</b>

See accompanying notes to the general purpose financial statements

City of Wellston, Ohio  
 Combined Statement of Cash Flows  
 Proprietary Fund Type and Similar Fiduciary Funds  
 For the Year Ended December 31, 2003

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Non- Expendable Trust	
<u>Increase (Decrease) in Cash and Cash Equivalents</u>			
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$2,870,446	\$	\$2,870,446
Cash Payments for Employee Services and Benefits	(1,247,225)	0	(1,247,225)
Cash Payments for Goods and Services	(1,514,789)	0	(1,514,789)
Other Operating Revenues	270,723	0	270,723
Customer Deposits Received	29,049	0	29,049
Customer Deposits Returned	(26,725)	0	(26,725)
Net Cash Provided by Operating Activities	<u>381,479</u>	<u>0</u>	<u>381,479</u>
<u>Cash Flows from Noncapital Financing Activities:</u>			
Operating Transfers In	62,532	0	62,532
Advances In	70,957	0	70,957
Advances Out	(72,292)	0	(72,292)
Net Cash Provided by Noncapital Financing Activities	<u>61,197</u>	<u>0</u>	<u>61,197</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Proceeds of Grants	79,104	0	79,104
Acquisition of Capital Assets	(374,562)	0	(374,562)
Proceeds of Loans	117,026	0	117,026
Principal Paid on Debt	(446,108)	0	(446,108)
Interest Paid on Debt	(208,324)	0	(208,324)
Net Cash Used for Capital and Related Financing Activities	<u>(832,864)</u>	<u>0</u>	<u>(832,864)</u>
<u>Cash Flows from Investing Activities:</u>			
Interest on Investments	206	3,999	4,205
Net Cash Provided by Investing Activities	<u>206</u>	<u>3,999</u>	<u>4,205</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(389,982)	3,999	(385,983)
Cash and Cash Equivalents at Beginning of Year	<u>826,944</u>	<u>152,539</u>	<u>979,483</u>
Cash and Cash Equivalents at End of Year	<u>\$436,962</u>	<u>\$156,538</u>	<u>\$593,500</u>

(continued)

City of Wellston, Ohio  
 Combined Statement of Cash Flows  
 Proprietary Fund Type and Similar Fiduciary Funds (Continued)  
 For the Year Ended December 31, 2003

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Non- Expendable Trust	
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>			
Operating Income	\$153,856	\$7,268	\$161,124
Depreciation Expense	400,941	0	400,941
Interest Income	0	(7,268)	(7,268)
<b>Changes in Assets and Liabilities:</b>			
Decrease in Accounts Receivable	69,445	0	69,445
Decrease in Materials and Supplies Inventory	14,281	0	14,281
Decrease in Notes Receivable	46,664	0	46,664
Increase in Prepays	(5,699)	0	(5,699)
Decrease in Accounts Payable	(94,731)	0	(94,731)
Decrease in Contracts Payable	(203,123)	0	(203,123)
Increase in Accrued Wages and Benefits Payable	5,028	0	5,028
Decrease in Compensated Absences Payable	(10,408)	0	(10,408)
Increase in Customer Deposits	2,324	0	2,324
Increase in Intergovernmental Payables	2,901	0	2,901
<b>Net Cash Provided by Operating Activities</b>	<b><u>\$381,479</u></b>	<b><u>\$0</u></b>	<b><u>\$381,479</u></b>

Reconciliation of Cash and Cash Equivalents of Non-Expendable Trust Fund to Balance Sheet

Cash and Cash Equivalents on the Combined Balance Sheet are \$168,305 for all trust and agency funds. \$11,767 of that total is agency fund cash and cash equivalents and \$156,538 is non-expendable trust fund cash and cash equivalents.

See accompanying notes to the general purpose financial statements

**NOTE 1 - REPORTING ENTITY**

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

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

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 repair, 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 are 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 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 for the organization. No potential component unit meets these criteria.

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

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources. The City applies Financial Accounting Standards Board statements and interpretations issued prior to November 30, 1989, to proprietary activities provided they do not conflict with Governmental Accounting Standards Board statements and interpretations.

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 could differ from those estimates.

A. **Basis of Presentation - Fund Accounting**

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the City are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

Governmental Fund Types:

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in the proprietary and trust funds) are accounted for through governmental funds. The following are the City's governmental fund types:

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

Special Revenue Funds - These funds are established to account for the proceeds of specific revenue sources (other than amounts relating to major capital projects) that are legally restricted to expenditure for specified purposes.

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and non-expendable trust funds).

Proprietary Fund Type:

The proprietary funds are accounted for on a flow of economic resources measurement focus. This measurement focus provides that all assets and all liabilities associated with the operation of the proprietary funds are included on the balance sheet. Fund equity (net assets) are segregated into contributed capital and retained earnings components. The proprietary fund operating statements present increases (revenues) and decreases (expenses) in net total assets. Proprietary funds are used to account for the City's ongoing activities which are similar to those found in the private sector. The following is the City's Proprietary Fund Type:

Enterprise Funds - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Fiduciary Fund Types:

Fiduciary funds are used to account for assets the City holds in a trustee capacity or as an agent for individuals, private organizations, other governments and other funds. The following are the City's fiduciary fund types:

Non-Expendable Trust Funds - These funds are accounted for in essentially the same manner as a proprietary fund. The principal of the trusts must be preserved.

Agency Funds - These funds are purely custodial (assets equal liabilities) and thus does not involve measurement of results of operations.

Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are typically used:

General Fixed Assets Account Group - to account for all general fixed assets of the City other than those accounted for in proprietary or trust funds.

General Long-Term Obligations Account Group - to account for all unmatured long-term indebtedness of the City that is not a specific liability of proprietary or trust funds.

B. Measurement Focus and Basis of Accounting

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds and non-expendable trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is typically segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental funds and the agency funds. The full accrual basis of accounting is followed for the proprietary funds and the non-expendable trust fund.

All governmental fund types and agency funds are accounted for using the modified accrual basis of accounting. The full accrual basis of accounting is followed for the proprietary and non-expendable trust funds.

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 receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). Revenue from grants, entitlements, and donations is recognized in the 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 reimbursement basis. On a modified accrual basis, revenue from a non-exchange transaction must also be available before it can

be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available a year end: investment earnings, state-levied locally shared taxes (including gasoline tax), grants, rentals, fines and forfeitures.

Deferred revenues arise 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, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met also have been recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

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. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. 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.

Tax Budget:

In accordance with Section 5747.53 of the Ohio Revised Code, the County Budget Commission has provided for the apportionment of undivided local government funds under an alternative method which has been approved by governmental subdivisions within the County. Under this alternative method, the County Budget Commission has waived the requirement for the Taxing Authority of a subdivision to adopt a tax budget.

Estimated Resources:

The County Budget Commission reviews estimated revenues and determines if there is a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of this certification, the City receives an official certificate of estimated resources, which states the estimated beginning of year fund balance and projected revenue of each fund. Prior to December 31, the City must revise its contemplated expenditures from any fund during the ensuing year to ensure they will not exceed the amount available as stated in the certificate of estimated resources. These revised contemplated expenditures then serve as the basis for the annual appropriation ordinance. On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if revenue fluctuations are anticipated. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2003.

Appropriations:

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of Council. During the year, several supplemental appropriation measures were passed. None of these supplemental appropriations had any significant effect on the original appropriations. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts passed during the year, including all amendments and modifications.

Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent-year expenditures for governmental funds and are reported in the notes to the financial statements for proprietary funds.

Lapsing of Appropriations:

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and is not reappropriated.

D. Cash, Cash Equivalents and Investments

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the Combined Balance Sheet.

During 2003, the City had investments in certificates of deposit, which are report at cost, and U. S. Treasury Notes, which are reported at fair value. During the year, the City also invested in STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for at December 31, 2003.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the General Fund during 2003 amounted to \$81,139, which includes \$67,345 assigned from other City funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less are considered to be cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2003, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

F. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fund fixed assets (assets used to provide the services accounted for in the enterprise funds) are reported in the respective funds. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost when no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of fund fixed assets.

Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are not capitalized, as these assets are immovable and of value only to the City. Assets in the general fixed assets account group are not depreciated. Depreciation in the proprietary fund type is computed using the straight-line method over the following useful lives:

Buildings	40 years
Furniture	15 years
Equipment and Machinery	15 years
Vehicles	5 years
Water/Sewer Lines	70 years

Interest is capitalized on proprietary fund assets acquired with tax exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. For 2003, interest costs incurred on construction projects in the proprietary funds were not material.

G. Restricted Assets

Restricted assets in the enterprise funds represent water/sewer customer deposits.

H. Interfund Assets and Liabilities

Short-term interfund loans or the short-term portion of advances are classified as interfund receivables/payables.

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated, unused vacation time when earned for all employees who have worked beyond their probation period.

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 sick leave for all employees with ten or more years of service.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J. Contributed Capital

Prior to 2001, contributed capital represented resources from other funds, other governments, and private sources provided to enterprise funds that is not subject to repayment. Because the City had not prepared financial statements in accordance with Generally Accepted Accounting Principles prior to 1994, the exact amount of contributed capital pertaining to prior years cannot be determined. Consequently, only those amounts that have been able to be identified specifically have been classified as contributed capital in the accompanying combined financial statements.

Capital contributions received after 2001 from other governments and private sources have been recorded as revenues and are reported as retained earnings. Contributions from other funds are still recorded as contributed capital.

K. Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Fund balances are reserved for encumbrances, endowments, and loans receivable.

L. Interfund Transactions

During the course of normal operations the City had numerous transactions between funds. The most significant are operating transfers.

Transfers of resources from one fund to another fund through which resources are to be expended are recorded as operating transfers

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

M. Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current expendable available financial resources. Payments made more than sixty days after year end are generally considered not to have been paid with current available financial resources. Bonds and long-term loans are recognized as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the

City of Wellston, Ohio  
Notes to the General Purpose Financial Statements  
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appropriate proprietary funds.

N. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned memorandum only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 – RESTATEMENT OF PRIOR YEAR BALANCES

Due to errors in the previous year, including cash posted to the wrong fund, customer deposits not recognized as a liability, enterprise fund revenue being deferred, and debt not being posted, the following fund balances were restated from amounts previously reported. These restatements had the following effect on fund balance/retained earnings as previously reported as of December 31, 2002:

	General	Enterprise
Balance as previously reported	\$329,253	\$1,927,991
Cash posted to the wrong fund	1,674	0
Customer deposits payable not posted	0	(200,376)
Deferred revenue	0	87,500
Debt not posted	0	(174,814)
Miscellaneous adjustments	0	0
Adjusted Balance at 12/31/02	\$330,927	\$1,640,301

These adjustments had no material effect on the prior year's operating statements.

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

The following funds had deficit fund balances as of December 31, 2003:

	Deficit Balances
<u>Special Revenue Funds:</u>	
Railroad Depot	\$2,974
Kuppenheimer Building	\$697
<u>Enterprise Funds:</u>	
Garbage	\$211
Swimming Pool	\$1,252

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

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December 31, 2003

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B. Statutory Compliance

Section 5705.41(B), Ohio Revised Code, requires that all expenditures be properly appropriated. The following funds had expenditures/expenses in excess of appropriations:

<u>Fund</u>	<u>Amount</u>
<u>Special Revenue Funds:</u>	
<u>Fire</u>	
Security of Persons and Property	\$16,833
Capital Outlay	\$1,146
Debt Service Principal	\$17
<u>Cemetery</u>	
Public Health	\$5,688
<u>Recreation</u>	
Leisure Time Activities	\$21,321
<u>Street Levy</u>	
Transportation	\$3,402
<u>FEMA</u>	
Security of Persons and Property	\$88,631
<u>DARE</u>	
Security of Persons and Property	\$522
 <u>Enterprise Funds:</u>	
<u>Water</u>	
Salaries and Wages	\$116,405
Fringe Benefits	\$77,826
Contractual Services	\$21,728
Materials & Supplies	\$107,481
<u>Sewer</u>	
Salaries and Wages	\$75,778
Fringe Benefits	\$16,635
Contractual Services	\$164,156
Materials & Supplies	\$68,347
Other Operating Expenses	\$10,920
Capital Outlay	\$148,937
<u>Garbage</u>	
Fringe Benefits	\$6,322
Materials & Supplies	\$5,168
<u>Swimming Pool</u>	
Salaries and Wages	\$3,505
Contractual Services	\$2,426
Other Operating Expenses	\$1,211
<u>McNally</u>	
Contractual Services	\$41,765
Materials & Supplies	\$8,972
Other Operating Expenses	\$48,360

City of Wellston, Ohio  
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Section 5705.39, Ohio Revised Code requires that total appropriations be limited by total estimated resources. The following funds had appropriations in excess of estimated receipts plus available balances for the year ended December 31, 2003:

Fund	Amount
General Fund	\$80,745
Special Revenue Funds:	
Street	\$139,292
Cemetery	\$27,398
County Sales Tax	\$8,191
Railroad Depot	\$136
Enterprise Funds:	
Sewer	\$168,685
Garbage	\$484
Swimming Pool	\$7,382

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) - All Governmental Fund Types is presented on the budgetary basis to provide a comparison of actual results with the budget and to demonstrate compliance with State statute. The major differences between the budget basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Outstanding year end encumbrances are treated as expenditures(budget) rather than as a reservation of fund balance for governmental fund types (GAAP).
4. Proceeds from and principal payment on short-term note obligations are reported on the operating statement (budget) rather than on the balance sheet (GAAP).
6. Revenues received by year end and not posted to cash (budget basis) are recorded as revenue (GAAP basis).

City of Wellston, Ohio  
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Adjustments necessary to convert the results of operations at the end of the year on the Budget Basis to the GAAP basis are as follows:

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses All Governmental Fund Types and Similar Trust Funds			
	General	Special Revenue	Capital Projects
GAAP Basis	\$208,198	\$205,704	\$4,241
Adjustments:			
Revenue Accruals	(185,240)	94,235	0
Beginning of Year:			
Unreported Interest	540	27,085	0
Prepaid Items	1,412	2,373	0
End of Year:			
Unreported Interest	(1,113)	(26,735)	0
Prepaid Items	(7,607)	(4,900)	0
Loss on Investment	0	12,500	0
Expenditure Accruals	(21,695)	(84,442)	0
Debt Service:			
Interest and Fiscal Charges	(1,184)	(5,940)	0
Encumbrances	(7,157)	(160,341)	0
	(\$13,846)	\$59,539	\$4,241
Budget Basis			

**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 pass book 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 treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United State Treasury or any other obligation guaranteed as to principal and interest by the United States;

City of Wellston, Ohio  
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2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAROhio).

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is not default of principal, interest or coupons; and,
3. Obligations of the City.

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

Investments may only be made through 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.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.

Deposits. At year end, the carrying amount of the City's deposits was \$1,048,202 and the bank balance was \$1,119,003. Of the bank balance:

1. \$211,714 was covered by federal depository insurance;
2. \$907,289 was uncollateralized. Although the securities were held by the pledging financial institutions' trust department in the City's name and all State statutory requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

City of Wellston, Ohio  
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If a federal court in Ohio were to apply an interpretation of 12 U.S.C.A. 1823(e) which was applied in 1992 by the United States Court of Appeals for the 8th Circuit, noncompliance by a pledging financial institution might lead to a claim by the FDIC that the City did not have a perfected security interest in the security. This may therefore preclude the City from recovering against pledged collateral in the event of the insolvency of the depository.

Investments. The City's investments are required to be categorized to give an indication of the level of risk assumed by the City at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. STAROhio is an unclassified investment since it not evidenced by securities that exist in physical or book entry form.

	Category 2	Fair Value
U. S. Treasury Notes	\$2,433,244	\$2,433,244
STAROhio		628,969
Total	\$2,433,244	\$3,062,213

The classification of "Cash and Cash Equivalents" and "Investments" on the combined financial statements is based on criteria set forth in GASB Statement No. 9, Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$1,677,171	\$2,433,244
Investments:		
Star Ohio	(628,969)	628,969
GASB Statement 3	\$1,048,202	\$3,062,213

NOTE 7 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2003 for real and public utility property taxes represents collections of 2002 taxes. Property tax payments received during 2003 for tangible personal property (other than public utility property) are for 2003 taxes.

2003 real property taxes are levied after October 1, 2003, on the assessed value as of January 1, 2003, the lien date. Assessed values are established by State Law at 35 percent of appraised market value. 2003 real property taxes are intended to finance 2004.

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. 2003 public utility property taxes became a lien December 31, 2002, are levied after October 1, 2003, and are collected in 2004 with real property taxes.

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2003 tangible personal property taxes are levied after October 1, 2002, on the value as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are 25 percent of true value, and 23 percent for inventory.

The full tax rate for all City operations for the year ended December 31, 2003, was \$6.70 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

	<u>2003</u>
Real Property	\$34,862,990
Public Utility Real and Tangible Personal Property	18,997,560
Tangible Personal Property	<u>15,433,753</u>
Total Assessed Value	<u><u>\$69,294,303</u></u>

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.

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

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Wellston. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes, and outstanding delinquencies which are measurable as of December 31, 2003, and for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2003 operations. The receivable is therefore offset by deferred revenue.

**NOTE 8 – INCOME TAX**

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

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

Income tax proceeds are to be used for the purposes of general municipal operations, maintenance, new equipment, extension and enlargement of municipal services and facilities and capital improvements of the City.

**NOTE 9 - RECEIVABLES**

Receivables at December 31, 2003, consisted of taxes, accounts (billings for user charged services including unbilled utility services), accrued interest, loans, notes, and intergovernmental receivables arising from grants, entitlements, and shared revenues. All receivables are considered collectible in full.

Loans receivable represent monies due from a revolving loan program for the improvement of homes in the City. Notes receivable represent monies due from local industries for work performed by the City.

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A summary of the principal items of intergovernmental receivables follows:

<u>Intergovernmental Receivables:</u>	<u>Amount</u>
General Fund:	
Local Government	\$42,509
Special Revenue Funds:	
Motor Vehicle License	29,998
Gasoline Tax	<u>70,368</u>
Total Special Revenue Funds	<u>100,366</u>
Total	<u><u>\$142,875</u></u>

**NOTE 10 - FIXED ASSETS AND DEPRECIATION**

A summary of the enterprise funds' property, plant, and equipment at December 31, 2003, follows:

	<u>Balance</u>
	<u>12/31/03</u>
Land	\$62,706
Buildings and Improvements	8,572,901
Machinery and Equipment	565,103
Vehicles	528,217
Plant Improvements	2,770,877
Water and Sewer Lines	<u>3,638,058</u>
Total	<u>16,137,862</u>
Less: Accumulated Depreciation	<u>(4,356,351)</u>
Net Fixed Assets	<u><u>\$11,781,511</u></u>

A summary of the changes in general fixed assets during 2003 follows:

	<u>Balance</u>		<u>Balance</u>
	<u>12/31/02</u>	<u>Additions</u>	<u>12/31/03</u>
		<u>Reductions</u>	
Land	\$109,371	\$23,000	\$0
Buildings	2,931,379	59,767	0
Equipment and Machinery	511,750	56,731	0
Vehicles	<u>730,338</u>	<u>343,733</u>	<u>36,134</u>
Total	<u><u>\$4,282,838</u></u>	<u><u>\$483,231</u></u>	<u><u>\$36,134</u></u>
			<u><u>\$4,729,935</u></u>

**NOTE 11 - 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 risk by purchasing comprehensive insurance through commercial carriers.

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

<u>Type of Coverage</u>	<u>Limit</u>	<u>Aggregate Limit</u>
General Liability	\$1,000,000 Per Occurrence	\$3,000,000
Public Officials Liability	\$1,000,000 Per Occurrence	\$3,000,000
Auto Liability	\$1,000,000 Per Occurrence	
Law Enforcement Professional Liability	\$1,000,000 Per Occurrence	\$2,000,000
Employee Dishonesty	\$1,000,000 Per Occurrence	\$4,000,000
Property Damage	\$23,866,490	

The City has a \$500 deductible on its auto policy and a \$5,000 deductible for each claim on its law enforcement liability policy.

For 2003, 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.

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

**NOTE 12 - DEFINED BENEFIT PENSION PLANS**

**A. Ohio Public Employees Retirement System**

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2003 was 8.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$168,787, \$249,100, and \$137,938

respectively; 78 percent has been contributed for 2003 and 100 percent for 2002 and 2001. Contributions to the member-directed plan for 2003 were \$3,651 made by the City and \$2,290 made by the plan members.

**B. Police and Firemen's Disability and Pension Fund**

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters were \$39,064 and \$19,741 for the year ended December 31, 2003, \$51,138 and \$20,877 for the year ended December 31, 2002, and \$67,396 and \$31,082 for the year ended December 31, 2001. The full amount has been contributed for 2002 and 2001. 77 percent for police and 64 percent for firefighters has been contributed for 2003 with the remainder being reported as a liability.

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

**A. Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 5.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$95,529. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

**B. Police and Firemen's Disability and Pension Fund**

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2003 that were used to fund postemployment benefits were \$25,766 for police and \$9,415 for firefighters. The OP&F's total health care expense for the year ended December 31, 2002, (the latest information available) was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

**NOTE 14 - 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. Additional Insurance**

The City provides \$50,000 in life insurance and accidental death and dismemberment insurance to its full-time employees and part-time employees working a minimum of twenty hours per week through Anthem Life.

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

C. Compensated Absences

The criteria for determining vested vacation and sick leave benefits are derived from negotiated agreements and State laws. Upon retirement, all employees with more than 5 years of service will be paid 50 percent of their accumulated, unused sick leave up to 45 days. Upon voluntary termination, death, or retirement, all employees will receive 100% of vacation earned and not previously taken.

NOTE 15 - LONG-TERM OBLIGATIONS

Changes in long-term obligations of the City for the year ended December 31, 2003, were as follows:

	January 1, 2003	Increase	Decrease	December 31, 2003
<u>General Long-Term Debt</u>				
Notes/Loans Payable:				
2002 Police Cruisers Note 3.59%	\$46,667	\$0	\$46,667	\$0
2001 Fire Trucks Note 6.04%	208,682	0	6,434	202,248
2003 Fire Trucks Note 3.00%	0	253,983	0	253,983
2003 Jackson County Revolving Loan 0%	50,000	0	3,333	46,667
Total Notes/Loans Payable	305,349	253,983	56,434	502,898
Compensated Absences	48,978	21,235	12,151	58,062
Retirement Benefits Payable	0	68,792	0	68,792
Total General Long-Term Debt	<u>\$354,327</u>	<u>\$344,010</u>	<u>\$68,585</u>	<u>\$629,752</u>

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	Outstanding 12/31/02	Increase	Decrease	Outstanding 12/31/03
<u>Enterprise Fund Obligations</u>				
Farmers Home Administration General Obligation Bonds 1993 5.00%	\$722,000	\$0	\$11,000	\$711,000
Water Revenue Bonds 2002 4.10%	500,000	0	71,429	428,571
Farmers Home Administration Revenue Bonds 1993 5.00%	1,808,000	0	27,000	1,781,000
Total Revenue Bonds	<u>2,308,000</u>	<u>0</u>	<u>98,429</u>	<u>2,209,571</u>
OWDA 1996 2.20% Water Fund	943,714	0	70,364	873,350
OWDA 1996 2.20% Sewer Fund	671,226	0	43,209	628,017
OWDA 2001 2.20% Sewer Fund	1,119,062	0	70,056	1,049,006
Total OWDA Loans	<u>2,734,002</u>	<u>0</u>	<u>183,629</u>	<u>2,550,373</u>
OPWC 1992 0% Water Fund	37,918	0	5,987	31,931
OPWC 1996 0% Water Fund	438,750	0	48,750	390,000
OPWC 1996 0% Sewer Fund	384,167	0	67,794	316,373
OPWC 2000 0% Sewer Fund	54,576	0	4,548	50,028
Total OPWC Notes Payable	<u>915,411</u>	<u>0</u>	<u>127,079</u>	<u>788,332</u>
WSOS Community Action Safe Water Loan 2002 3.00%	121,080	0	11,465	109,615
Vactor Manufacturing Loan 2003 5.19%	0	117,026	0	117,026
Garbage Truck Loan Milton Bank 1999 5.25%	28,000	0	14,506	13,494
Total Notes Payable	<u>1,064,491</u>	<u>117,026</u>	<u>153,050</u>	<u>1,028,467</u>
Total Enterprise Funds	<u>\$6,828,493</u>	<u>\$117,026</u>	<u>\$446,108</u>	<u>\$6,499,411</u>

The fire truck note issued in 2001 for \$221,000 matures in 2020. The fire truck note issued in 2003 for \$253,983 matures in 2010. These notes will be paid from the Fire Levy Special Revenue Fund.

In 2002, the City borrowed \$50,000 from the Jackson County Community Development Block Grant Revolving Loan Fund. Proceeds were used for the City's portion of a paving project conducted by the County. Repayment will be from the City's Community Development Block Grant Revolving Loan Special Revenue Fund. The loan will be paid off in 2017.

The annual requirements to amortize all general long-term debt outstanding as of December 31, 2003, including interest payments of \$157,453 are as follows:

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	Principal	Interest	Total
2004	\$43,479	\$19,954	\$63,433
2005	44,963	18,470	63,433
2006	46,454	16,979	63,433
2007	48,003	15,430	63,433
2008	49,577	13,856	63,433
2009-2013	148,596	46,262	194,858
2014-2018	86,241	23,746	109,987
2019-2023	35,585	2,756	38,341
Totals	<u>\$502,898</u>	<u>\$157,453</u>	<u>\$660,351</u>

Principal and interest requirements to retire the City's enterprise general obligation bonds outstanding at December 31, 2003, are as follows:

	Principal	Interest	Total
2004	\$11,000	\$35,550	\$46,550
2005	12,000	35,000	47,000
2006	13,000	34,400	47,400
2007	13,000	33,750	46,750
2008	14,000	33,100	47,100
2009-2013	81,000	154,300	235,300
2014-2018	102,000	132,050	234,050
2019-2023	131,000	103,750	234,750
2024-2028	167,000	67,650	234,650
2029-2032	167,000	21,400	188,400
Totals	<u>\$711,000</u>	<u>\$650,950</u>	<u>\$1,361,950</u>

In 1993, the City issued \$798,000 in Farmers Home Administration general obligation bonds, maturing in 2032, for improvements to the City's sewer system. Repayment will be made through user fees.

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

Principal and interest requirements to retire the City's enterprise revenue bonds outstanding at December 31, 2003, are as follows:

	Principal	Interest	Total
2004	\$100,428	\$106,621	\$207,049
2005	101,429	102,243	203,672
2006	102,428	97,814	200,242
2007	104,429	93,336	197,765
2008	106,428	88,757	195,185
2009-2013	271,429	389,679	661,108
2014-2018	258,000	331,200	589,200
2019-2023	327,000	260,200	587,200
2024-2028	420,000	169,500	589,500
2029-2032	418,000	53,500	471,500
Totals	<u>\$2,209,571</u>	<u>\$1,692,850</u>	<u>\$3,902,421</u>

An Ohio Water Development Authority (OWDA) loan, maturing in 2014, was issued in 1996 in the amount of \$1,113,654 for water line improvements. Repayment will be made from user fees.

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

Principal and interest requirements to retire the City's enterprise OWDA loans outstanding at December 31, 2003, are as follows:

	Principal	Interest	Total
2004	\$187,532	\$53,726	\$241,258
2005	191,520	49,730	241,250
2006	195,592	45,649	241,241
2007	199,750	41,480	241,230
2008	204,000	37,223	241,223
2009-2013	1,087,004	119,011	1,206,015
2014-2018	484,974	11,555	496,529
Totals	<u>\$2,550,372</u>	<u>\$358,374</u>	<u>\$2,908,746</u>

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

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

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

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

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

The garbage truck note was issued in 1999 for \$70,000, and it matures in 2004. Payments will be made from the Garbage Fund. Repayment will be made through user fees.

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Principal and interest requirements to retire the City's enterprise fund notes and loans outstanding at December 31, 2003, are as follows:

	Principal	Interest	Total
2004	\$136,802	\$10,014	\$146,816
2005	125,061	7,523	132,584
2006	126,897	5,687	132,584
2007	128,822	3,763	132,585
2008	97,689	1,747	99,436
2009-2013	328,488	2,948	331,436
2014-2018	80,160	0	80,160
2019-2023	4,548	0	4,548
Totals	\$1,028,467	\$31,682	\$1,060,149

As of December 31, 2003, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$6,642,484.

**NOTE 16 - INTERFUND TRANSACTIONS**

Interfund Receivable and Interfund Payable at December 31, 2003, consisted of the following:

Interfund Receivables and Payables	Receivable	Payable
General Fund	\$74,478	\$0
<u>Special Revenue Funds:</u>		
Railroad Depot	0	2,824
Kuppenheimer Building	0	697
Total Special Revenue Funds	0	3,521
<u>Enterprise Funds:</u>		
Swimming Pool	0	1,389
Industrial Site	0	69,568
Total Enterprise Funds	0	70,957
Total	\$74,478	\$74,478

**NOTE 17 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The City's enterprise funds account for the provision of water, sewer, and garbage services, as well as a municipal swimming pool and an industrial site. The table below reflects, in a summarized format, the more significant financial data relating to the enterprise funds of the City of Wellston as of and for the year ended December 31, 2003:

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	Water	Sewer	Garbage	Swimming Pool	Industrial Site	Total
Operating Revenues	\$1,390,313	\$1,190,335	\$220,863	\$20,587	\$202,961	\$3,025,059
Depreciation	\$75,713	\$287,395	\$18,484	\$71	\$19,278	\$400,941
Operating Income (Loss)	\$278,982	(\$3,853)	(\$68,587)	(\$14,315)	(\$38,371)	\$153,856
Net Non-Operating Revenues (Expenses)	(\$26,224)	(\$89,975)	(\$980)	\$0	\$0	(\$117,179)
Operating Transfers In			\$40,000	\$22,532	\$0	\$62,532
Net Income (Loss)	\$252,758	(\$93,828)	(\$29,567)	\$8,217	(\$38,371)	\$99,209
Additions to Fixed Assets	\$178,933	\$193,937	\$1,692	\$0	\$0	\$374,562
Net Working Capital	\$41,427	\$410,835	(\$25,173)	(\$1,824)	(\$87,920)	\$337,345
Total Assets	\$2,927,774	\$9,181,950	\$35,960	\$853	\$600,401	\$12,746,938
Long-term Liabilities to be Paid from Fund Revenues	\$1,833,468	\$4,535,423	\$0	\$0	\$0	\$6,368,891
Total Equity	\$751,968	\$4,414,897	(\$211)	(\$1,252)	\$518,785	\$5,684,187
Encumbrances at December 31, 2003	\$45,879	\$22,502	\$721	\$500	\$385	\$69,987

**NOTE 18 - CONTINGENCIES**

**A. Grants**

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2003.

**B. Litigation**

The City is the defendant in a number of claims and lawsuits which may be classified as routine litigation in which minimal non-material damages are being sought. The City's management does not anticipate any material liability.

**C. Environmental Contingency**

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

City of Wellston, Ohio  
Notes to the General Purpose Financial Statements  
December 31, 2003

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

As of December 31, 2003, the City had performed all work required under the approved report to reduce inflow into the collection system; however, it did not result in a sufficient reduction of inflow to comply with all terms and conditions of the Consent Decree. The City has evaluated the EPA's requirements and believes it is not possible to reduce inflow to the levels required. The EPA has not assessed the stipulated penalties which are estimated to be \$1,370,800, as of December 31, 2003, and growing at a rate of \$500 per day. The City is currently in contact with the U. S. EPA in an effort to dissolve the Consent Decree. Since the ultimate outcome of this matter is undeterminable, the City has not recorded the stipulated penalties as a liability.

**NOTE 19 - RELATED PARTY TRANSACTIONS**

During 2003 the City acquired various products and services from Woolum's Business Products and Clark's Garage for a total of \$11,305 and \$26,657 respectively. These local businesses were owned by Council Members, Keith Woolum and Tom Clark, respectively.

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**Auditor of State  
Betty Montgomery**

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

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

To the City Council:

We have audited the accompanying general purpose financial statements of the City of Wellston, Jackson County, Ohio (the City), as of and for the year ended December 31, 2003, and have issued our report thereon dated March 3, 2005. 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 Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the general purpose financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions in the general purpose financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2003-002 through 2003-004, 2003-008, and 2003-010.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the general purpose financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable conditions 2003-002 through 2003-004, and 2003-008 listed above to be material weaknesses. In a separate letter to the City's management dated March 3, 2005, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701  
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

### Compliance and Other Matters

As part of reasonably assuring whether the City's general purpose financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2003-001 through 2003-009. In a separate letter to the City's management dated March 3, 2005, we reported other matters related to noncompliance we deemed immaterial.

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



**Betty Montgomery**  
Auditor of State

March 3, 2005

**CITY OF WELLSTON  
JACKSON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003  
Continued**

**FINDING NUMBER 2003-001**

**Finding for Recovery**

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

As of January 23, 2004, 16 of 30 eligible bargaining unit employees had not submitted all receipts showing the purchase of clothing after the issue date of February 12, 2003. However, on January 23, 2004, the City disbursed an additional \$300 to each bargaining unit employee. The following table reflects the 16 bargaining unit employees who did not comply with contract requirements regarding the clothing allowance, but who were subsequently paid the entire \$300 clothing allowance in the proceeding year.

Employee	2003 Clothing Allowance	2003 Supporting Receipts	2003 Receipt Shortage	2004 Clothing Allowance Paid	Overpayment	Fund(s) Paid From
Jeffrey Argabright	\$300	\$280	\$20	\$300	\$20	Water
Frederick Snider	\$300	\$103	\$197	\$300	\$197	Water
Alvis Brown	\$300	\$0	\$300	\$300	\$300	Sewer
Robert Phillips	\$300	\$0	\$300	\$300	\$300	Sewer
Brian Lusk	\$300	\$0	\$300	\$300	\$300	Sewer
David Downard	\$300	\$90	\$210	\$300	\$210	Cemetery
Phillip Thompson	\$300	\$0	\$300	\$300	\$300	Garbage
Delbert Jones	\$300	\$201	\$99	\$300	\$99	Street
Gordon Hatfield	\$300	\$0	\$300	\$300	\$300	Sewer/Water
Jeff Denny	\$300	\$0	\$300	\$300	\$300	Street
John Smith	\$300	\$0	\$300	\$300	\$300	Sewer
John Vititoe	\$300	\$0	\$300	\$300	\$300	Street
Leon Jayjohn	\$300	\$0	\$300	\$300	\$300	Sewer
Paul Ervin	\$300	\$0	\$300	\$300	\$300	Street
Rodney Brown	\$300	\$0	\$300	\$300	\$300	Sewer
Steve Bocook	\$300	\$0	\$300	\$300	\$300	Sewer

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for public monies illegally expended is hereby issued against the individuals above and CNA, their respective Surety Company, for the overpayment listed above, in favor of the City's funds listed above.

On March 8, 2005, Jeffrey Argabright repaid \$20 to the City of Wellston's Water Fund.

On March 17, 2005, Alvis Brown repaid \$300 to the City of Wellston's Sewer Fund.

**CITY OF WELLSTON  
JACKSON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003  
Continued**

**FINDING NUMBER 2003-002**

**Noncompliance Citation, Material Weakness**

Ohio Rev. Code Section 149.351 (A) requires that all records which are the property of the public office shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided under Sections 149.38 to 149.42 of the Ohio Rev. Code.

Eight percent of the vouchers requested were not available for review and eleven percent of the vouchers tested did not have original supporting documentation attached. This made it difficult to determine if the expenditure was for a proper public purpose and posted to the appropriate fund and account code.

Further, during a scan of the expenditure report, we noted that over \$25,000 had been paid to Jack Smith, a local contractor for a culvert replacement at the City ball field. No contract, bid package or any documentation to support this contract could be found, although per interview with Darren Labraun (City Engineer), Julie Hall (Recreation Department Secretary), and Denise Davis (City Deputy Auditor), the bid process did take place. There is also no record of this contract in the City Council minute record.

Lack of adequate supporting documentation could result in the City making inappropriate disbursements for goods or services not actually received by the City, and could allow errors and fraud to occur and go unnoticed for an extended period of time.

We recommend that no payment be made from the City treasury that is not supported by an approved voucher package that would include, at a minimum, an original invoice or receipt and a properly executed purchase order. All records supporting contracts should also be retained.

**CITY OF WELLSTON  
JACKSON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003  
Continued**

**FINDING NUMBER 2003-003**

**Noncompliance Citation, Material Weakness**

Ohio Rev. Code Section 733.11 states, in part, that the City Auditor shall keep the books of the city and exhibit accurate statements of all moneys received and expended. Ohio Rev. Code Section 733.43 provides, in part, that the City Treasurer shall keep an accurate account of all money received and disbursed and so arrange the books that the amount received and paid on account of separate funds, or specified appropriations, shall be exhibited in separate accounts.

Monthly reconciliations of the bank account balance to the City's ending book balance were not properly performed by the City. Although the City Treasurer did prepare a monthly report comparing the City Auditor's book balance to the City Treasurer's balance and then comparing the City Treasurer's balance to the bank balance, the reports contained errors and each month required an unexplained adjusting factor, designated by the Treasurer as "In-Transit Adjustments", to reconcile the Treasurer's balance with the bank balance. This resulted in the City's book balances not actually reconciling with the bank statements, with monthly unexplained adjusting factors ranging from a negative (\$72,052) in February 2003 to positive \$846,098 in October 2003.

Although the City performed a monthly proof of cash for 2003 in order to identify errors in the City Auditor's balances and City Treasurer's balances, the process was performed several months after transactions occurred. Errors found included, but were not limited to, receipts not posted to the City Auditor's and/or City Treasurer's records, interest not posted to the City Auditor's and/or City Treasurer's records, checks not posted to the City Auditor's and/or City Treasurer's records, checks listed as outstanding on the City Treasurer's outstanding check list that had cleared the bank, checks not listed as outstanding when they actually were outstanding, checks and receipts recorded twice on the City Auditor's and/or City Treasurer's records, and bank transfers recorded as receipts on the City Auditor's and/or City Treasurer's records. Additionally, the City Auditor and City Treasurer reflected a Permanent Investment Fund balance of \$2,433,835 and a Cemetery Perpetual Care Trust Fund balance of \$175,000 when the balances of these funds were invested with a brokerage firm (Merrill Lynch) and the actual balance of those funds at December 31, 2003 were \$2,274,704 and \$158,540, respectively. Lack of accurate monthly reconciliations resulted in the City Auditor's total receipts being overstated by \$100,894 and total disbursements being understated by \$266,620 while the investment accounts being recorded incorrectly resulted in beginning balances being overstated by \$165,369, and interest receipts being overstated by \$10,222 for a total ending fund balance overstatement of \$543,105. The audited financial statements have been adjusted to reflect the correct beginning balances, receipt totals, disbursement totals and ending fund balances.

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

**CITY OF WELLSTON  
JACKSON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003  
Continued**

**FINDING NUMBER 2003-004**

**Noncompliance Citation, Material Weakness**

Ohio Rev. Code Section 5705.10 states:

- All revenue derived from the following is required to be paid into the general fund:
  - The general levy for current expense within the ten-mill limitation;
  - Any general levy for current expense authorized by vote in excess of the ten-mill limitation; and from
  - Sources other than the general property tax, unless its use for a particular purpose is prescribed by law.
- All revenue derived from general or special levies for debt charges, whether within or in excess of the ten mill limitation, which is levied for the debt charges on serial bonds, notes, or certificates of indebtedness having a life less than five years, shall be paid into the bond retirement fund. All such revenue which is levied for the debt charges on all other bonds, notes, or certificates of indebtedness is to be paid into the sinking fund.
- All revenue derived from a special levy is to be credited to a special fund for the purpose for which the levy was made.
- All revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose is to be paid into a special fund for such purpose.
- All proceeds from the sale of public obligations or fractionalized interests in public obligations as defined in Ohio Rev. Code Section 133.01, except premium and accrued interest, is to be paid into a special fund for the purpose of such issue. Any interest earned on money in the special fund may be used for the purpose for which the indebtedness was authorized or may be credited and used for an authorized fund or account. The premium and accrued interest received from such sale is to be paid into the subdivision's sinking fund or the bond retirement fund.
- If a permanent improvement of the subdivision is sold, the amount received from it may be paid into the sinking fund, the bond retirement fund, or into a special fund for the construction or acquisition or permanent improvements.
- Proceeds from the sale of a public utility are to be paid into the sinking fund or bond retirement fund to the extent necessary to provide for the retirement of the outstanding indebtedness incurred in the construction or acquisition of such utility.
- Proceeds from the sale of property other than a permanent improvement are to be paid into the fund from which such property was acquired or is maintained, or if there is no such fund, into the general fund.

Money that is paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

**CITY OF WELLSTON  
JACKSON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003  
Continued**

**FINDING NUMBER 2003-004 (Continued)**

**Noncompliance Citation, Material Weakness (Continued)**

The City had budget basis negative fund balances at December 31, 2003 as follows:

Fund	Balance
<b>Special Revenue Funds:</b>	
219 - Depot	\$ (2,824)
405 - Kuppenheimer	\$ (697)
<b>Enterprise Funds:</b>	
218 - McNally	\$ (79,318)
602 - North Water Capital	\$ (83,083)
607 - North Sewer Construction	\$ (17,198)
610 - North Sewer Capital	\$ (28,861)
614 - Pool	\$ (1,390)

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

**FINDING NUMBER 2003-005**

**Noncompliance Citation**

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

Estimated receipts exceeded actual receipts in several funds at December 31, 2003 causing actual resources to fall below the level of appropriation as follows:

Fund	Actual Resources	Appropriations	Variance
<b>General Fund</b>	\$ 1,836,955	\$ 2,043,106	\$ (206,151)
<b>Special Revenue Fund:</b>			
219 - Depot	\$ 4,283	\$ 12,000	\$ (7,717)
<b>Enterprise Funds:</b>			
602 - North Water Capital	\$ 31,886	\$ 154,515	\$ (122,629)
610 - North Sewer Capital	\$ (5,681)	\$ 249,435	\$ (255,116)
611 - Garbage	\$ 295,458	\$ 330,122	\$ (34,664)

This could allow deficit spending to occur, as indicated in finding number 2003-004.

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

CITY OF WELLSTON  
JACKSON COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2003  
Continued

FINDING NUMBER 2003-006

**Noncompliance Citation**

Ohio Rev. Code Section 5705.39 provides, in part, that the total appropriations from each fund shall not exceed the total estimated revenue. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

Appropriations exceeded estimated resources for the year ended December 31, 2003 as follows:

Fund	Estimated Resources	Appropriations	Variance
<b>General Fund</b>	\$ 1,962,361	\$ 2,043,106	\$ (80,745)
<b>Special Revenue Funds:</b>			
202 - Street	\$ 147,871	\$ 287,163	\$ (139,292)
203 - Cemetery	\$ 86,378	\$ 113,776	\$ (27,398)
210 - Sales Tax	\$ 180,009	\$ 188,200	\$ (8,191)
219 - Depot	\$ 11,864	\$ 12,000	\$ (136)
<b>Enterprise Funds:</b>			
606 - Sewer	\$ 801,253	\$ 875,326	\$ (74,073)
610 - North Sewer	\$ 154,823	\$ 249,435	\$ (94,612)
611 - Garbage	\$ 329,638	\$ 330,122	\$ (484)
614 - Pool	\$ 22,528	\$ 29,910	\$ (7,382)

This could allow deficit spending to occur, as indicated in Finding Number 2003-004

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

**CITY OF WELLSTON  
JACKSON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003  
Continued**

**FINDING NUMBER 2003-007**

**Noncompliance Citation**

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

Expenditures plus encumbrances exceeded appropriations at December 31, 2003 in the following funds:

Fund	Appropriations	Disbursements Plus		Variance
		Encumbrances		
<b>Special Revenue Funds:</b>				
201 - Fire	\$ 554,349	\$ 572,345	\$	(17,996)
203 - Cemetery	\$ 113,776	\$ 119,464	\$	(5,688)
204 - Recreation	\$ 54,115	\$ 75,436	\$	(21,321)
211 - Street Levy	\$ 114,000	\$ 117,402	\$	(3,402)
220 - DARE	\$ 5,600	\$ 6,122	\$	(522)
<b>Enterprise Funds:</b>				
218 - McNally	\$ 121,250	\$ 220,347	\$	(99,097)
601 - Water	\$ 1,374,347	\$ 1,797,461	\$	(423,114)
606 - Sewer	\$ 875,326	\$ 1,544,484	\$	(669,158)
614 - Pool	\$ 29,910	\$ 35,031	\$	(5,121)

Additionally, expenditures plus encumbrances exceeded appropriations at the legal level of control for several line items. This could result in deficit spending, as indicated in Finding Number 2003-004.

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

**FINDING NUMBER 2003-008**

**Noncompliance Citation, Material Weakness**

Ohio Rev. Code Section 5705.41(D)(1) states no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer attached that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by statute:

1. Then and Now Certificate: If the fiscal officer can certify that both at the time that the contract or order was made and at the time the fiscal officer is completing his certification, 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 taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

**CITY OF WELLSTON  
JACKSON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003  
Continued**

**FINDING NUMBER 2003-008 (Continued)**

**Noncompliance Citation, Material Weakness (Continued)**

Amounts of less than \$100 for counties, or less than \$1,000 (\$3,000 after April 7, 2003) for other political subdivisions, may be paid by the fiscal officer without such affirmation of the taxing authority 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 taxing authority.

2. Blanket Certificate: Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) 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 Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer 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.

Forty nine 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 as indicated in finding number 2003-004.

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

**CITY OF WELLSTON  
JACKSON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003  
Continued**

**FINDING NUMBER 2003-009**

**Noncompliance Citation**

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 whoever violates section (A) shall be subject to termination of water service.

Nine per cent of the utility adjustments tested were for overestimated meter readings. Thirty-three percent of the readings tested were estimated four or more times between actual readings. Unread Meter reports often indicate that meters are inaccessible.

Ordinance 51.11 established the Water and Sewer Charges Review Board. Per Ordinance 51.11, Section (C), the Board shall hear appeals upon application and may revise, affirm or modify the matter appealed. It was City policy that adjustments would only be approved for leaks, pool filings, or misreadings. A pool filling was allowed one time per year. Adjustments for leaks and misreadings were to be supported by a work order or an order from the review board.

Fifty-three percent of the adjustments tested were not supported by a work order or an order from the Review Board. Eighty-two percent of the adjustments tested, totaling \$24,244, were not approved by the City Clerk or the Review Board. Although review of the customer account histories indicated that the adjustments appeared to be reasonable, proper procedure was not followed in regard to the approval process.

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

Although twenty-five percent of the accounts tested carried a balance into the subsequent month and two percent of the accounts tested were shut off for nonpayment and still carried a balance in the subsequent year, there was no indication that any accounts were ever forwarded to the County Auditor for placement on the tax duplicate.

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

**CITY OF WELLSTON  
JACKSON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003  
Continued**

**FINDING NUMBER 2003-010**

**Reportable Condition**

The City has delegated the investment of the Permanent Investment Account and the Cemetery Trust Account, which is a significant accounting function, to Merrill Lynch, a third-party administrator. The City has not established procedures to determine whether the service organization has sufficient controls in place and operating effectively to reduce the risk that investments have not been completely and accurately processed in accordance with the Ohio Revised Code and the City's Permanent Investment Ordinance.

We recommend the City implement procedures to assure the completeness and accuracy (including allowability) of investment transactions processed by its third-party administrator. Statement on Auditing Standards (SAS) No. 70 as amended, prescribes standards for reporting on the processing (i.e. control design and operation) of transactions by service organizations. An unqualified Tier II "Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness" in accordance with SAS No. 70, should provide the City with an appropriate level of assurance that investments are being processed in conformance with the Ohio Revised Code and the City's Permanent Investment Ordinance. (Also, SAS 92 clarifies the applicability of SAS 70 to investing activities.)

In addition, we recommend the City specify in their contract with Merrill Lynch that an annual Tier II SAS 70 report be performed. The City should be provided a copy of the SAS 70 report timely and should review the report's content. A SAS 70 report should be conducted in accordance with American Institute of Certified Public Accountants' (AICPA) standards by a firm registered and considered in "good standing" with the Accountancy Board of the respective State. If the third-party administrator refuses to provide the City with a Tier II SAS 70 report, we recommend the City only contract with a third-party administrator that will provide such a report.

**CITY OF WELLSTON  
JACKSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
DECEMBER 31, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer</u> Valid; <b><i>Explain:</i></b>
2002-001	Finding for Recovery for public money collected but unaccounted for.	Yes	Corrected
2002-002	Finding for Recovery repaid under audit for public monies illegally expended.	Yes	Corrected
2002-003	Finding for Recovery repaid under audit for public monies illegally expended.	Yes	Corrected
2002-004	Noncompliance Citation of Rural Development Loan 92-05 requiring Wastewater Treatment Reserve Account to have reserve of \$200,000 balance.	Yes	Corrected
2002-005	Material Weakness/Noncompliance Citation of Ohio Rev. Code Section 135.14(D) for investments with maturity dates greater than five years.	No	Partially Corrected - This issue has been referred to management in a separate letter dated March 3, 2005.
2002-006	Material Weakness/Noncompliance Citation of Ohio Rev. Code Section 135.14 for lack of investment policy and for not holding investments to maturity.	No	Partially Corrected - This issue has been referred to management in a separate letter dated March 3, 2005.
2002-007	Material Weakness/Noncompliance Citation of Ohio Rev. Code Section 135.13 for interim deposits with maturity dates greater than 1 year and invested outside the U.S.	No	Partially Corrected - This issue has been referred to management in a separate letter dated March 3, 2005.
2002-008	Noncompliance Citation of Ohio Rev. Code Section 735.05 for not accepting lowest bid and for lack of Council approval of the contracts.	Yes	Corrected
2002-009	Material Weakness/Noncompliance Citation of Ohio Rev. Code Section 149.351(A) for destruction of records.	No	Not Corrected – See Finding Number 2003-002 in the accompanying Schedule of Findings
2002-010	Material Weakness/Noncompliance Citation of Ohio Rev. Code Section 733.11, 733.43, and 733.14 requiring accurate statements and accounts to be maintained by the City Auditor and City Treasurer.	No	Not Corrected – See Finding Number 2003-003 in the accompanying Schedule of Findings
2002-011	Material Weakness/Noncompliance Citation of Ohio Rev. Code Section 5705.10 for having negative fund balances.	No	Not Corrected – See Finding Number 2003-004 in the accompanying Schedule of Findings

**CITY OF WELLSTON  
JACKSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
DECEMBER 31, 2003  
(Continued)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer</u> <u>Valid</u> ; <b><i>Explain</i></b> :
2002-012	Noncompliance Citation of Ohio Rev. Code Section 5705.36 for appropriations exceeding actual resources.	No	Not Corrected – See Finding Number 2003-005 in the accompanying Schedule of Findings.
2002-013	Noncompliance Citation of Ohio Rev. Code Section 5705.40 for amendments to appropriations not being approved by Council in the same manner as the original appropriations were approved.	No	Partially Corrected - This issue has been referred to management in a separate letter dated March 3, 2005.
2002-014	Noncompliance Citation of Ohio Rev. Code Section 5705.41(B) for expenditures exceeding appropriations.	No	Not Corrected – See Finding Number 2003-007 in the accompanying Schedule of Findings.
2002-015	Material Weakness/Noncompliance Citation of Ohio Rev. Code Section 5705.41(D) for not obtaining auditors certification of availability of funds for 53% of purchases tested.	No	Not Corrected – See Finding Number 2003-008 in the accompanying Schedule of Findings.
2002-016	Material Weakness for not obtaining a SAS-70 report for Merrill Lynch, a third party administrator of the City's investments.	No	Not Corrected – See Finding Number 2003-010 in the accompanying Schedule of Findings.
2002-017	Material Weakness for lack of computer system security over the City's financial and utility data.	Yes	Corrected
2002-018	Reportable Condition for discrepancies in the City's Fixed Asset Balance.	No	Partially Corrected - This issue has been referred to management in a separate letter dated March 3, 2005.
2002-019	Cash Management Noncompliance related to Community Development Block Grant (CDBG)	Yes	Finding no longer valid since City did not have any CDBG grant funds during 2003.
2002-020	Special Tests and Provisions – Environmental Review Noncompliance related to Community Development Block Grant (CDBG)	Yes	Finding no longer valid since City did not have any CDBG grant funds during 2003.
2002-021	Davis Bacon Act Noncompliance related to Community Development Block Grant (CDBG)	Yes	Finding no longer valid since City did not have any CDBG grant funds during 2003.

**CITY OF WELLSTON  
JACKSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
DECEMBER 31, 2003  
(Continued)**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <b><i>Explain:</i></b>
2002-022	Allowable Costs Noncompliance/Material Weakness/Questioned Cost related to Community Development Block Grant (CDBG)	Yes	Finding no longer valid since City did not have any CDBG grant funds during 2003.
2002-023	Cash Management Reportable Condition related to Community Development Block Grant (CDBG)	Yes	Finding no longer valid since City did not have any CDBG grant funds during 2003.

**CITY OF WELLSTON  
JACKSON COUNTY**

**CORRECTIVE ACTION PLAN  
DECEMBER 31, 2003**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2003-001	The City Law Director plans to research and investigate all findings.	The Law Director has 120 days from the date of report to take official action. After which, the Ohio Attorney General may take action.	Joseph Kirby, Contract Legal Counsel for the City of Wellston
2003-002	The City Auditor intends to maintain tighter control over disbursement records and the City Mayor intends to maintain copies of all contracts.	The City Auditor and City Mayor intend to maintain all records for 2004.	William Marietta, City Auditor Edgar Hayburn, City Mayor
2003-003	The City Auditor and City Treasurer intend to work together to ensure all transactions are timely and accurately posted and to ensure they reconcile with the bank on a monthly basis.	The City Auditor and City Treasurer intend to reconcile with the bank monthly for 2004.	William Marietta, City Auditor Ceil Geitz, City Treasurer
2003-004	The City Auditor intends to monitor fund balances and if necessary, advance monies from the General Fund, when available.	Due to General Fund financial problems, an anticipated date could not be determined at this time.	William Marietta, City Auditor
2003-005	The City Auditor intends to monitor estimated vs. actual receipts monthly and obtain amended certificates when necessary.	The City Auditor intends to comply for 2004.	William Marietta, City Auditor
2003-006	The City Auditor intends to monitor appropriations vs. estimated resources to determine if amendments are necessary.	The City Auditor intends to comply for 2004.	William Marietta, City Auditor
2003-007	The City Auditor intends to monitor appropriations vs. actual disbursements plus encumbrances monthly to determine if amendments are necessary.	The City Auditor intends to comply for 2004.	William Marietta, City Auditor
2003-008	The City Auditor intends to monitor obligation dates and require employees to obtain certification prior to obligation.	The City Auditor intends to comply for 2004.	William Marietta, City Auditor
2003-009	The City intends to monitor delinquencies and take appropriate action on delinquent accounts. The City also intends to approve adjustments to utility accounts and attempt to perform actual readings of accounts monthly.	The City intends to comply for 2005.	City Council City Clerk Edgar Hayburn, City Mayor Mark Jacobs, City Service Director
2003-010	The City Treasurer intends to request Merrill Lynch to obtain a SAS-92 report.	The City Treasurer intends to comply for 2004.	Ceil Geitz, City Treasurer



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**CITY OF WELLSTON**

**JACKSON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 5, 2005**