



Mary Taylor, CPA
Auditor of State

**City of Wellston
Jackson County, Ohio**

**Fiscal Emergency Analysis
As of December 31, 2008 and June 30, 2009**

Local Government Services Section

City of Wellston, Jackson County

Fiscal Emergency Analysis

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Mary Taylor, CPA
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Declaration of Fiscal Emergency

The Auditor of State performed a fiscal analysis of the City of Wellston pursuant to Section 118.03 of the Ohio Revised Code. This analysis indicates and it is hereby declared that a fiscal emergency exists at the City of Wellston as defined by Section 118.03(A)(6) and 118.03(B) of the Ohio Revised Code.

Accordingly, on behalf of the Auditor of State, this report is hereby submitted and filed with Edgar Hayburn, Mayor of the City of Wellston; Larry Newman, President of Council for the City of Wellston; Ted Strickland, Governor; Jennifer Brunner, Secretary of State; Kevin Boyce, Treasurer of State; J. Pari Sabety, Director of the Office of Budget and Management and Clyde Holdren, Secretary of the Jackson County Budget Commission.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

October 1, 2009

City of Wellston, Jackson County

Fiscal Emergency Analysis

Introduction

As provided by Sections 118.021 and 118.04(A) of the Ohio Revised Code, Auditor of State Mary Taylor initiated a fiscal analysis of the City of Wellston, Jackson County (the City). The purpose of the analysis is to determine if the financial condition of the City justifies the declaration of a fiscal watch or emergency.

A city is placed in fiscal emergency if any one of the six conditions described in Section 118.03 of the Ohio Revised Code exists. The six conditions are: 1) default on a debt obligation; 2) failure to make payment of all payroll; 3) an increase in the minimum levy of the city which results in the reduction in the minimum levy of another subdivision; 4) significant past due accounts payable; 5) substantial deficit balances in city funds; and 6) a sizeable deficiency when the city's treasury balance is compared to the positive cash balances of the city's funds.

The year-end conditions described under Conditions four, five, and six do not constitute a fiscal emergency if the city clearly demonstrates to the satisfaction of the Auditor of State prior to the time of the Auditor of State's determination that the conditions no longer exist at the time of the determination.

This report identifies the procedures performed and the conclusions reached with respect to each condition as of December 31, 2008 and June 30, 2009, the date of determination.

Condition One – Default on Any Debt Obligation

Section 118.03(A)(1) of the Ohio Revised Code defines a fiscal emergency condition as:

The existence, at the time of the determination by the Auditor of State under Section 118.04 of the Revised Code, of a default on any debt obligation for more than thirty days.

We obtained a list of outstanding debt from the 2008 unaudited financial statements and reviewed the existing minutes for the period of January 1, 2009 through June 30, 2009 to identify any new debt issues. We obtained the vouchers for the payments made before June 30, 2009 and compared the billing statements, invoices, or requests for payment to the amortization schedules and debt proceedings to determine if the City met its debt obligations in a timely manner. We also reviewed the billing statements, invoices, and requests for payment for any delinquent amounts. There were no debt payments more than 30 days past due.

The debt issues, the payment dates, and the amounts due and paid prior to the date of determination are presented below:

City of Wellston, Jackson County

Fiscal Emergency Analysis

Debt Issue	Interest Rate	Original Issue Amount	Principal or Interest Payment Date	Amount Due	Payments 30 days Past Due at June 30, 2009
<u>Loans Payable</u>					
2001 Fire Truck Loan	6.04%	\$221,000	1/12/2009	\$9,665	\$0
2003 Jackson County Revolving Loan	0.00%	50,000	6/1/2009	1,667	0
2004 Street Sweeper Loan	3.40%	102,561	11/10/2008	18,879	0
2004 Fire Truck Loan	3.00%	413,052	11/10/2008	66,087	0
2002 WSOS Safe Water Loan	3.00%	126,250	3/9/2009	7,358	0
2004 Garbage Truck Loan	3.25%	101,000	6/3/2009	1,546	0
<u>General Obligation Bonds Payable</u>					
1993 Sewer Bonds	5.00%	798,000	9/1/2008	47,050	0
<u>Revenue Bonds Payable</u>					
1993 Sewer Improvements	5.00%	2,000,000	9/1/2008	117,850	0
2002 Water Sytem Improvements	4.10%	500,000	12/1/2008	74,357	0
<u>Ohio Public Works Commission Loans</u>					
1992 Water System Renovations	0.00%	79,857	1/1/2009	1,996	0
1996 Water System Improvements	0.00%	650,000	1/1/2009	16,250	0
2000 Green Acres Sewer Line	0.00%	60,640	1/1/2009	1,516	0
<u>Ohio Water Development Authority Loans</u>					
1995 Water Treatment Plant Improvement	2.00%	1,459,169	1/1/2009	44,619	0
1995 Sewer Separation	2.20%	1,477,554	1/1/2009	45,859	0
1996 Wastewater Treatment Plant	2.20%	930,173	1/1/2009	28,870	0

Conclusion: A fiscal emergency condition does not exist under Ohio Revised Code Section 118.03(A)(1). No default on any debt obligation for more than thirty days existed at June 30, 2009.

Condition Two – Payment of All Payroll

Section 118.03(A)(2) of the Ohio Revised Code defines a fiscal emergency condition as:

The existence, at the time of the determination by the Auditor of State under Section 118.04 of the Revised Code, of a failure for lack of cash in the funds to make payment of all payroll to employees of the municipal corporation, county, or township in the amounts and at the times required by law, ordinances, resolutions, or agreements, which failure of payment has continued:

- (a) For more than thirty days after such time for payment, or
- (b) Beyond a period of extension, or beyond the expiration of ninety days from the original time for payment, whichever first occurs, if the time for payment has been extended for more than thirty days by the written consent of at least two-thirds of the employees affected by such failure to pay, acting individually or by their duly authorized representatives.

We reviewed the payroll records of the City as of June 30, 2009. We reviewed the City Council’s minutes, ordinances and other personnel records to determine the employees of the City, pay rates, frequency of payroll, and whether any extensions for the payment of payroll exist. We reviewed payroll reports, direct deposit confirmations, cancelled checks, and interviewed various employees to determine that payroll checks were issued on the scheduled pay dates.

Conclusion: A fiscal emergency condition does not exist under Section 118.03(A)(2) of the Ohio Revised Code as of June 30, 2009. All employees have been paid in amounts and at the times required by City ordinance.

City of Wellston, Jackson County

Fiscal Emergency Analysis

Condition Three – Increase in Minimum Levy

Section 118.03(A)(3) of the Ohio Revised Code defines a fiscal emergency condition as:

An increase, by action of the county budget commission pursuant to division (D) of Section 5705.31 of the Revised Code, in the minimum levy of the municipal corporation, county, or township for the current or next fiscal year which results in a reduction in the minimum levies for one or more other subdivisions or taxing districts.

We confirmed with the Jackson County Budget Commission whether there had been an increase, pursuant to division (D) of Section 5705.31 of the Ohio Revised Code, in the minimum levy of the City for 2008 or 2009, which resulted in a reduction in the minimum levies for one or more other subdivisions or taxing districts. The confirmation received from the Jackson County Budget Commission indicated that the Commission had not taken any action in 2008 or 2009 to increase the inside millage of the City and, therefore, no other subdivision's inside millage was reduced.

Conclusion: A fiscal emergency condition does not exist under Section 118.03(A)(3) of the Ohio Revised Code as of June 30, 2009. The Jackson County Budget Commission has not taken any action to increase the inside millage of the City, thus reducing another subdivision's millage.

Condition Four – Past Due Accounts Payable from the General Fund and All Funds

Section 118.03(A)(4) of the Ohio Revised Code, defines a fiscal emergency condition as:

The existence of a condition in which all accounts that, at the end of its preceding fiscal year, were due and payable from the general fund and that either had been due and payable for at least thirty days at the end of the fiscal year or to which a penalty has been added for failure to pay by the end of the fiscal year, including, but not limited to, final judgments, fringe benefit payments due and payable, and amounts due and payable to persons and other governmental entities and including any interest and penalties thereon, less the year-end balance in the general fund, exceeded one-sixth of the general fund budget for that year, or in which all accounts that, at the end of its preceding fiscal year, were due and payable from all funds of the municipal corporation, county, or township and that either had been due and payable for at least thirty days at the end of the fiscal year or to which a penalty has been added for failure to pay by the end of the fiscal year, less the year-end balance in the general fund and in the respective special funds lawfully available to pay such accounts, exceeded one-sixth of the available revenues during the preceding fiscal year, excluding nonrecurring receipts, of the general fund and of all special funds from which such accounts lawfully are payable. Accounts due and payable shall not include any account, or portion thereof, that is being contested in good faith.

We prepared a schedule of accounts payable as of December 31, 2008, that were due and payable from the general fund, and that had been due and payable for at least thirty days or to which a penalty had been added for failure to pay as of December 31, 2008, including, but not limited to, final judgments, fringe benefit payments due and payable, and amounts due and payable to persons and other governmental entities, including any interest and penalties. From this amount, we subtracted the year-end fund balance available in the general fund to determine if the accounts payable in excess of the available fund balance exceeded one-sixth of the general fund budget for that year. Actual receipts of the General Fund were used rather than the general fund budget (estimated receipts reported on the last amended official certificate of estimated resources) because the City does not file any of the required budgetary documents with the county budget commission.

City of Wellston, Jackson County

Fiscal Emergency Analysis

Schedule I

General Fund Accounts Payable Over 30 Days Past Due
Ohio Revised Code Section 118.03(A)(4)
As of December 31, 2008

	Payables Over 30 Days Past Due	General Fund Balance Available	Payables In Excess of Available Balance	One-Sixth of General Fund Budget	Accounts Payable in Excess of General Fund Budget
General	\$16,342	\$0	\$16,342	\$319,041	\$0

We prepared a schedule of accounts payable (as defined above) for all funds which were at least thirty days past due or to which a penalty was added as of December 31, 2008. From this amount, we subtracted the year-end fund balance available to pay such outstanding bills. We then determined if the accounts payable in excess of the available fund balance exceeded one-sixth of the available revenues during 2008, excluding non-recurring receipts of the general fund and of all special funds from which such accounts are lawfully payable.

Schedule II

All Funds Accounts Payable Over 30 Days Past Due
Ohio Revised Code Section 118.03(A)(4)
As of December 31, 2008

Funds	Payables Over 30 Days Past Due	Fund Balance Available	Payables In Excess of Available Balance	One-Sixth of the Revenues Available	Accounts Payable in Excess of Available Revenues
General	\$16,342	\$0	\$16,342	\$319,041	\$0
Fire Levy	11,187	0	11,187	42,314	0
Street Maintenance	5,353	0	5,353	49,876	0
Cemetery	575	0	575	6,151	0
Recreation	406	0	406	6,473	0
County Sales Tax	3,387	9,854	0	35,166	0
Street Levy	15,785	275,093	0	18,551	0
McNally Building	60	164,037	0	16,844	0
DARE	231	4,317	0	1,819	0
Water	14,451	0	14,451	213,279	0
Sewer	12,455	0	12,455	125,468	0
Garbage	9,310	0	9,310	51,841	0
Swimming Pool	110	0	110	4,917	0
Totals	\$89,652	\$453,301	\$70,189	\$891,740	\$0

Conclusion: Schedules I and II indicate that as of December 31, 2008, a fiscal emergency condition does not exist under Section 118.03(A)(4) of the Ohio Revised Code. Accounts payable from the general fund which were at least thirty days past due at the end of the year did not exceed the available balance in the general fund plus one-sixth of the general fund budget, nor did all accounts payable which were at least thirty days past due exceed the available balance in the general fund and the respective special funds plus one-sixth of the available revenues for 2008.

City of Wellston, Jackson County

Fiscal Emergency Analysis

Condition Five – Deficit Fund Balances

Section 118.03(A)(5), of the Ohio Revised Code defines a fiscal emergency condition as:

The existence of a condition in which the aggregate of deficit amounts of all deficit funds at the end of its preceding fiscal year, less the total of any year-end balance in the general fund and in any special fund that may be transferred as provided in Section 5705.14 of the Revised Code to meet such deficit, exceeded one-sixth of the total of the general fund budget for that year and the receipts to those deficit funds during that year other than from transfers from the general fund.

We computed the adjusted aggregate sum of all deficit funds as of December 31, 2008, by subtracting all accounts payable and encumbrances from the year-end cash fund balance of each fund. We then determined if the aggregate deficit fund balance exceeded one-sixth of the general fund budget and the receipts of those deficit funds. We then indentified funds that may be transferred, as provided in Section 5705.14 of the Ohio Revised Code, to meet such deficits to arrive at the unprovided portion of the aggregate deficit.

The Permanent Investment Fund was created on April 20, 1967, as required by Section 5705.10, Revised Code, with the proceeds from the sale of the City’s electric distribution and street lighting systems. At the time of sale, the City Council passed an ordinance that required the City to seek voter approval before the sale proceeds are expended. City Council can remove the voter approval restriction by repealing the ordinance and may seek approval under Sections 5705.14 and 5705.16, Revised Code, from the State Tax Commissioner and the Jackson County Common Pleas Court to transfer all or part of the Permanent Investment fund to the general fund to be used to eliminate the deficits in other funds.

Schedule III

Deficit Fund Balances
Ohio Revised Code Section 118.03(A)(5)
As of December 31, 2008

Funds	Cash Fund Balances	Less Accounts Payable and Encumbrances	Adjusted Aggregate Sum of Funds With Deficit Balances	One-Sixth General Fund Budget/Fund Receipts	Unprovided Portion of Aggregate Deficit
Fire Levy	(\$69,417)	\$55,631	(\$125,048)	\$52,628	(\$72,420)
Street Maintenance	(99,176)	20,392	(\$119,568)	49,876	(69,692)
Cemetery	(323,946)	8,985	(\$332,931)	10,100	(322,831)
Railroad	(3,701)	767	(\$4,468)	956	(3,512)
Water	(471,871)	116,863	(\$588,734)	213,279	(375,455)
Sewer	(475,011)	64,208	(\$539,219)	125,468	(413,751)
Garbage	(130,422)	35,204	(\$165,626)	51,841	(113,785)
Swimming Pool	(17,499)	4,291	(\$21,790)	2,668	(19,122)
	<u>(\$1,591,043)</u>	<u>\$306,341</u>	<u>(\$1,897,384)</u>	<u>\$506,816</u>	<u>(1,390,568)</u>
Fund available for transfer:					
Permanent Investment					2,433,835
Excess of Funds Available for Transfer Over Aggregate Deficits					<u>\$1,043,267</u>

Conclusion: Schedule III indicates that a fiscal emergency condition does not exist under Section 118.03(A)(5) of the Ohio Revised Code as of December 31, 2008. The unprovided portion of the deficit for all funds does not exceed the funds available for transfer under Section 5705.14 of the Ohio Revised Code.

City of Wellston, Jackson County

Fiscal Emergency Analysis

Condition Six – Treasury Deficiency

Section 118.03(A)(6), of the Ohio Revised Code, defines a fiscal emergency condition as:

The existence of a condition in which, at the end of the preceding fiscal year, moneys and marketable investments in or held for the unsegregated treasury of the municipal corporation, county, or township, minus outstanding checks and warrants, were less in amount than the aggregate of the positive balances of the general fund and those special funds the purposes of which the unsegregated treasury is held to meet, and such deficiency exceeded one-sixth of the total amount received into the unsegregated treasury during the preceding fiscal year.

Section 118.03(B) of the Ohio Revised Code, provides in part:

Any year end condition described in division (A)(6) of this section shall not constitute a fiscal emergency condition if the municipal corporation, county, or township clearly demonstrates to the satisfaction of the Auditor of State prior to the time of the Auditor of State’s determination that such condition no longer exists at the time of the determination pursuant to Section 118.04 of the Revised Code. For the purpose of such demonstration, there shall be taken into account the moneys and marketable securities in the treasury of the municipal corporation, county, or township at the time of such demonstration that are in the case of division (A)(6) of this section, held to meet such positive balances.

We verified the City’s reconciled bank balances to its fund cash balances as of December 31, 2008 and June 30, 2009. From the treasury balance, we subtracted the aggregate sum of all positive fund balances, the purpose of which the unsegregated treasury is held to meet to determine the treasury deficit. We then subtracted from the treasury deficit one-sixth of the amount received into the treasury during 2008 and one-sixth of the amount estimated to be received in 2009 to determine if a treasury deficiency exists.

Schedule IV

Treasury Balances
Ohio Revised Code Sections 118.03(A)(6) and 118.03(B)
As of December 31, 2008, and June 30, 2009

Table with 3 columns: Description, Amounts at December 31, 2008, and Amounts at June 30, 2009. Rows include Bank Balances (First National Bank, National City, etc.), Adjustments for (Deposits in Transit, Outstanding Checks), and Total Treasury Balance.

(Continued)

City of Wellston, Jackson County

Fiscal Emergency Analysis

Schedule IV
(Continued)

Treasury Balances
Ohio Revised Code Sections 118.03(A)(6) and 118.03(B)
As of December 31, 2008, and June 30, 2009

	<u>Amounts at</u> <u>December 31, 2008</u>	<u>Amounts at</u> <u>June 30, 2009</u>
Less: Positive Cash Fund Balances		
General Fund	159,498	110,749
Recreation Fund	12,734	12,951
State Highway Improvement Fund	83,660	92,815
Community Development Block Grant Program Income	89,152	64,828
Urban Development Action Grant Revolving Loan	12,314	10,647
County Sales Tax	47,680	45,175
Street Levy	319,833	357,633
Community Development Block Grant Revolving Loan	154,238	107,891
Downtown Business Incubator	41,199	54,504
McNally Fund	171,964	199,439
Drug Abuse Resistance Education Fund	6,429	5,550
Police Auxiliary	2,748	2,748
Housing Preservation	18,000	17,500
Community Housing Improvement Study Program	200	200
Police Department Special	1,998	1,998
Driving Under the Influence Enforcement & Education	4,095	4,375
Drug Enforcement & Education	12,137	8,708
Fire Department Special Programs	4,897	7,130
Wastewater System	200,000	200,000
Ridgewood Capital	17,768	21,168
Permanent Investment Fund	2,433,835	2,433,835
Kuppenheimer Fund	17,141	14,226
North Water Capital	75,824	115,695
Water Meter Deposit	161,631	159,811
North Sewer Capital	250,948	393,007
State Fire Loss Fund	24,312	68,114
Cemetery Perpetual Care	247,828	248,358
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Total Positive Cash Fund Balances	4,572,063	4,759,055
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Treasury Deficit	(1,591,043)	(1,704,085)
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One-Sixth Treasury Receipts	1,002,128	1,080,170
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Treasury Deficiency	(\$588,915)	(\$623,915)
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Conclusion: Schedule IV indicates that a fiscal emergency condition exists under Section 118.03(A)(6) and 118.03(B) of the Ohio Revised Code. The treasury balance less the positive cash fund balances exceed one-sixth of the treasury receipts as of December 31, 2008, and June 30, 2009 by \$588,915, and \$623,915, respectively.

City of Wellston, Jackson County

Fiscal Emergency Analysis

Summary

A fiscal emergency is the existence of at least one of the above defined conditions. This analysis indicates that a fiscal emergency exists at the City of Wellston as defined in Section 118.03(A)(6) and 118.03(B) of the Ohio Revised Code as presented in Schedule IV above as of December 31, 2008, and June 30, 2009.

Because the above procedures were not sufficient to constitute an audit made in accordance with generally accepted auditing standards, we do not express an opinion on any of the specific accounts and fund balances referred to above. Had we performed additional procedures or had we made an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you.

City of Wellston, Jackson County

Fiscal Emergency Analysis

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Mary Taylor, CPA
Auditor of State

CITY OF WELLSTON

JACKSON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 1, 2009**