



Mary Taylor, CPA
Auditor of State

**CITY OF WELLSTON
JACKSON COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wellston, Jackson County, Ohio (the City), as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The City has not fully paid the Auditor of State for services provided more than one year prior to our opinion date. AICPA Code of Professional Conduct, ET Section 191 considers this circumstance to impair an auditor's independence. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity because of Ohio Revised Code Section 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. Ohio Revised Code Section 117.13 also includes provisions to collect unpaid audit fees including negotiating a schedule of payment of the amount due, seeking payment through the Office of Budget and Management or through the County Auditor of the county in which the local public office of located. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wellston, Jackson County, Ohio, as of December 31, 2008, and the respective changes in financial position and where applicable, cash flows thereof and the respective budgetary comparisons for the General and Fire Levy Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the City will continue as a going concern. As discussed in Note 19 to the financial statements, the City has suffered recurring losses from operations and has a net asset deficiency that raise substantial doubt about its ability to continue as a going concern. In addition, the Auditor of State has determined a fiscal emergency exists, and a financial planning and supervision commission has assumed certain management responsibilities for the duration of this emergency pursuant to Chapter 118 of the Ohio Rev. Code. Note 19 describes Management's plans regarding these matters. The financial statements do not include any adjustments might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2009, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

November 23, 2009

City of Wellston, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2008
Unaudited

The discussion and analysis of the City of Wellston's (the City) financial performance provides an overall review of the City's financial activities for the year ended December 31, 2008. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2008 are as follows:

- The City's total net assets decreased by four percent, or \$416,149, from the total net assets at the beginning of the year 2008.
- At the end of the current year, the City's governmental activities reported total net assets of \$5,444,886, a decrease of \$372,673 from the prior year. Unrestricted net assets were (\$173,097).
- At the end of the current year, unreserved fund balance for the General Fund was \$257,489, which represents a 14 percent decrease from the prior year, and represents 14 percent of total General Fund expenditures.
- Capital assets decreased \$157,919. Capital assets of governmental activities increased \$193,009 or 10 percent. Capital assets of business-type activities decreased \$350,928, or 3.5 percent.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City as a financial whole or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

City of Wellston, Ohio
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Reporting the City of Wellston as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2008?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

Reporting the City of Wellston's Most Significant Funds

Fund Financial Statements

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

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

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

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

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

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

The City of Wellston as a Whole

Recall that the Statement of Net Assets looks at the City as a whole. Table 1 provides a summary of the City's net assets for 2008 compared to 2007.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets						
Current and Other Assets	\$4,692,072	\$5,274,797	\$48,227	\$74,486	\$4,740,299	\$5,349,283
Capital Assets, Net	2,080,746	1,887,737	9,696,459	10,047,387	11,777,205	11,935,124
<i>Total Assets</i>	<u>6,772,818</u>	<u>7,162,534</u>	<u>9,744,686</u>	<u>10,121,873</u>	<u>16,517,504</u>	<u>17,284,407</u>
Liabilities						
Current and Other Liabilities	848,931	783,584	500,636	452,848	1,349,567	1,236,432
Noncurrent Liabilities	479,001	561,391	4,330,498	4,711,997	4,809,499	5,273,388
<i>Total Liabilities</i>	<u>1,327,932</u>	<u>1,344,975</u>	<u>4,831,134</u>	<u>5,164,845</u>	<u>6,159,066</u>	<u>6,509,820</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	1,696,267	1,419,430	5,425,221	5,383,103	7,121,488	6,802,533
Restricted	3,921,716	4,340,184	0	0	3,921,716	4,340,184
Unrestricted (Deficit)	(173,097)	57,945	(511,669)	(426,075)	(684,766)	(368,130)
<i>Total Net Assets</i>	<u>\$5,444,886</u>	<u>\$5,817,559</u>	<u>\$4,913,552</u>	<u>\$4,957,028</u>	<u>\$10,358,438</u>	<u>\$10,774,587</u>

City of Wellston, Ohio
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Total assets decreased \$766,903. Governmental activities' capital assets increased \$193,009 due to the purchase of infrastructure and renovations to the Veterans' Park, offset by depreciation expense. The \$350,928 decrease in capital assets for business-type activities is due to depreciation. Business-Type activities' current assets decreased \$26,259.

There was a decrease in total liabilities for governmental activities of \$17,043 primarily due to debt service payments made during 2008.

Table 2 shows the changes in net assets for the fiscal year ended December 31, 2008, and comparisons to 2007.

Table 2
Changes in Net Assets

	Governmental Activities 2008	Business- Type Activities 2008	Total 2008	Governmental Activities 2007	Business- Type Activities 2007	Total 2007
Revenues						
Program Revenues:						
Charges for Services	\$364,091	\$2,709,502	\$3,073,593	\$420,864	\$2,672,867	\$3,093,731
Operating Grants and Contributions	647,255	0	647,255	647,550	0	647,550
Capital Grants and Contributions	0	0	0	0	89,011	89,011
<i>Total Program Revenues</i>	<u>1,011,346</u>	<u>2,709,502</u>	<u>3,720,848</u>	<u>1,068,414</u>	<u>2,761,878</u>	<u>3,830,292</u>
General Revenues:						
Property Taxes	501,461	0	501,461	777,414	0	777,414
Income Taxes	1,147,735	0	1,147,735	1,113,445	0	1,113,445
Grants and Entitlements	410,262	0	410,262	455,741	0	455,741
Investment Earnings	111,934	128	112,062	114,873	245	115,118
Miscellaneous	59,495	66,316	125,811	73,058	65,699	138,757
Total General Revenues	<u>2,230,887</u>	<u>66,444</u>	<u>2,297,331</u>	<u>2,534,531</u>	<u>65,944</u>	<u>2,600,475</u>
Total Revenues	<u>3,242,233</u>	<u>2,775,946</u>	<u>6,018,179</u>	<u>3,602,945</u>	<u>2,827,822</u>	<u>6,430,767</u>
Transfers	(15,500)	15,500	0	(184,869)	184,869	0
<i>Total Revenues and Transfers</i>	<u>3,226,733</u>	<u>2,791,446</u>	<u>6,018,179</u>	<u>3,418,076</u>	<u>3,012,691</u>	<u>6,430,767</u>
Program Expenses						
General Government	808,342	0	808,342	721,846	0	721,846
Security of Persons and Property	1,736,167	0	1,736,167	1,590,267	0	1,590,267
Transportation	462,661	0	462,661	402,802	0	402,802
Leisure Time Activities	111,680	0	111,680	90,631	0	90,631
Public Health Services	174,418	0	174,418	190,088	0	190,088
Community Environment	287,594	0	287,594	476,789	0	476,789
Interest and Fiscal Charges	18,544	0	18,544	19,723	0	19,723
Water	0	1,399,617	1,399,617	0	1,374,603	1,374,603
Sewer	0	1,038,047	1,038,047	0	1,079,093	1,079,093
Garbage	0	397,258	397,258	0	363,497	363,497
<i>Total Program Expenses</i>	<u>3,599,406</u>	<u>2,834,922</u>	<u>6,434,328</u>	<u>3,492,146</u>	<u>2,817,193</u>	<u>6,309,339</u>
Increase (Decrease) in Net Assets	(372,673)	(43,476)	(416,149)	(74,070)	195,498	121,428
Net Assets Beginning of Year	<u>5,817,559</u>	<u>4,957,028</u>	<u>10,774,587</u>	<u>5,891,629</u>	<u>4,761,530</u>	<u>10,653,159</u>
Net Assets End of Year	<u>\$5,444,886</u>	<u>\$4,913,552</u>	<u>\$10,358,438</u>	<u>\$5,817,559</u>	<u>\$4,957,028</u>	<u>\$10,774,587</u>

City of Wellston, Ohio
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Governmental Activities

Grants and contributions accounted for 20 percent of total governmental revenues. Tax revenue provided 51 percent of total governmental revenues. Of the 51 percent, 35 percent was generated from income taxes and 15 percent was generated from property and other local taxes. These revenue sources comprise the largest components of City revenues. Income taxes, property and other local taxes, and grants and contributions combined together, provided 71 percent of the City's total governmental revenues.

The City received \$364,091, or 11 percent of total governmental revenues, in charges for services. These direct charges to citizens include recreation fees, court fines and forfeitures, police security services, and licenses and permits.

The City's security of persons and property activities accounted for \$1,736,167, or 48 percent, of total expenses. General government activities utilized \$808,342, or 22 percent, of total expenses.

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

Table 3
Program Expenses and Net Costs of Governmental Activities, by Program
For the Year Ended December 31, 2008

	Program Activity Expenses <u>2008</u>	Net Cost (Gain) of Program Activity <u>2008</u>	Program Activity Expenses <u>2007</u>	Net Cost (Gain) of Program Activity <u>2007</u>
General Government	\$808,342	\$471,753	\$721,846	\$593,468
Security of Persons and Property	1,736,167	1,662,726	1,590,267	1,503,902
Transportation	462,661	104,651	402,802	63,185
Leisure Time Activities	111,680	48,431	90,631	(215,489)
Public Health Services	174,418	133,508	190,088	137,392
Community Environment	287,594	148,447	476,789	321,551
Interest and Fiscal Charges	18,544	18,544	19,723	19,723
Totals	<u><u>\$3,599,406</u></u>	<u><u>\$2,588,060</u></u>	<u><u>\$3,492,146</u></u>	<u><u>\$2,423,732</u></u>

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Management's Discussion and Analysis
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Business-Type Activities

The City's business-type activities are for water, sewer, and garbage services. During 2008, expenses exceeded program revenues by \$125,420.

The minimum water rate is \$6.39 for the first three thousand gallons of water. Sewer fees are calculated on the amount of water used. The minimum sewer rate is \$18.70 per month. Garbage fees are assessed at a flat rate of \$11.33 per month.

The City's Funds

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

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

General Fund

The General Fund is the primary operating fund of the City. At the end of 2008, fund balance was \$257,489. Fund balance represents 14 percent of total General Fund expenditures.

The fund balance of the City's General Fund decreased by \$42,112. Both revenues and expenditures decreased, with revenues decreasing at a larger rate. At the end of 2008, the General Fund transferred its remaining cash to support funds with negative cash balances. The General Fund had \$159,500 in cash at December 31, 2008, which was used, along with a \$904,769 advance from the Permanent Investment Capital Projects Fund, to temporarily support funds with negative cash balances.

Other Major Governmental Funds

The fund balance of the Fire Levy Special Revenue Fund at December 31, 2008, was (\$113,649), a decrease of \$124,390.

The fund balance of the Permanent Investment Fund at December 31, 2008, was \$2,433,835, the same as the prior year. The balance represents the proceeds from the 1967 sale of the City's electric utility.

Enterprise Funds

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

The City's enterprise funds are the Water, Sewer, and Garbage Funds. The Water Fund's net assets increased \$24,076, the Sewer Fund's net assets increased \$8,653, and the Garbage Fund's net assets decreased \$76,205. The Garbage Fund has historically been supported by transfers from the General Fund. The General Fund was unable to provide a transfer of cash to the Garbage Fund in 2007 and 2008.

City of Wellston, Ohio
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General Fund Budgetary Highlights

The City made no estimates of General Fund revenue. City Council passed appropriation resolutions during the year, but none were filed with the budget commission, and the City never received confirmation that appropriations did not exceed estimated resources. Therefore, the City has no budgetary information to present, other than actual receipts and disbursements.

Capital Assets and Debt Administration

Capital Assets

At the end of 2008, the City had \$11,777,205 invested in capital assets, net of accumulated depreciation. Table 4 shows fiscal year 2008 balances compared to 2007.

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Land	\$103,550	\$103,550	\$0	\$0	\$103,550	\$103,550
Land Improvements Not Depreciated	81,141	0	0	0	81,141	0
Construction in Progress	36,548	0	0	0	36,548	0
Buildings and Improvements	586,007	586,520	6,274,985	6,524,328	6,860,992	7,110,848
Land Improvements	26,890	0	0	0	26,890	0
Equipment	37,730	43,834	265,587	279,582	303,317	323,416
Infrastructure	460,407	340,182	3,078,208	3,130,581	3,538,615	3,470,763
Vehicles	748,473	813,651	77,679	112,896	826,152	926,547
Totals	\$2,080,746	\$1,887,737	\$9,696,459	\$10,047,387	\$11,777,205	\$11,935,124

The total decrease in the City's capital assets, net of accumulated depreciation, for the current year was \$157,919 or 1 percent.

For additional information on capital assets, see Note 9 to the basic financial statements.

Debt

As of December 31, 2008 and December 31, 2007, the City had total long-term debt of \$4,687,384 and \$5,165,925, respectively, as follows:

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

Table 5
Outstanding Debt

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
General Obligation Bonds	\$0	\$0	\$648,000	\$662,000	\$648,000	\$662,000
Revenue Bonds	0	0	1,694,429	1,800,857	1,694,429	1,800,857
OPWC Loans	0	0	274,342	313,867	274,342	313,867
OWDA Loans	0	0	1,566,497	1,775,979	1,566,497	1,775,979
Other Long-Term Loans	416,146	501,641	87,970	111,581	504,116	613,222
Totals	\$416,146	\$501,641	\$4,271,238	\$4,664,284	\$4,687,384	\$5,165,925

The City's overall legal debt margin was \$6,442,950. For additional information on debt, see Note 14 to the basic financial statements.

Economic Factors

One of the largest employers in Wellston is expanding to create seventy new jobs, which will result in an increase in tax revenue.

Requests for Information

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

City of Wellston, Ohio

Statement of Net Assets

December 31, 2008

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 2,792,334	\$	\$ 2,792,334
Accounts Receivable		428,006	428,006
Accrued Interest Receivable	2,834		2,834
Intergovernmental Receivable	185,837		185,837
Permissive Motor Vehicle License Tax Receivable	24,856		24,856
Internal Balances	550,530	(550,530)	0
Income Taxes Receivable	294,604		294,604
Property Taxes Receivable	588,083		588,083
Loans Receivable	234,210		234,210
Customer Deposits		161,631	161,631
Prepaid Items	18,784	9,120	27,904
Non-Depreciable Capital Assets	221,239		221,239
Depreciable Capital Assets, Net	1,859,507	9,696,459	11,555,966
<i>Total Assets</i>	<u>6,772,818</u>	<u>9,744,686</u>	<u>16,517,504</u>
Liabilities			
Accounts Payable	109,562	77,425	186,987
Accrued Wages and Benefits Payable	15,821	11,605	27,426
Intergovernmental Payable	257,330	189,364	446,694
Accrued Interest Payable	6,038	60,611	66,649
Deferred Revenue	460,180		460,180
Customer Deposits Payable		161,631	161,631
Long-Term Liabilities:			
Due Within One Year	122,169	434,490	556,659
Due In More Than One Year	356,832	3,896,008	4,252,840
<i>Total Liabilities</i>	<u>1,327,932</u>	<u>4,831,134</u>	<u>6,159,066</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	1,696,267	5,425,221	7,121,488
Restricted for:			
Street Construction	418,172		418,172
Police Protection	27,445		27,445
Community Development	733,265		733,265
Capital Projects	2,451,603		2,451,603
Cemetery Endowment:			
Expendable Portion	43,481		43,481
Nonexpendable Portion	204,347		204,347
Other Purposes	43,403		43,403
Unrestricted (Deficit)	(173,097)	(511,669)	(684,766)
<i>Total Net Assets</i>	<u>\$ 5,444,886</u>	<u>\$ 4,913,552</u>	<u>\$ 10,358,438</u>

See accompanying notes to the basic financial statements

City of Wellston, Ohio
Statement of Activities
For the Year Ended December 31, 2008

	Program Revenues			Net (Expense) Revenue and change in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Governmental Activities	Business - Type Activities	
Governmental Activities						
General Government	\$ 808,342	\$ 165,782	\$ 170,807	\$ (471,753)		(\$471,753)
Security of Persons and Property	1,736,167	24,154	49,287	(1,662,726)		(1,662,726)
Transportation	462,661		358,010	(104,651)		(104,651)
Leisure Time Activities	111,680	34,924	28,325	(48,431)		(48,431)
Public Health Services	174,418	32,434	8,476	(133,508)		(133,508)
Community Environment	287,594	106,797	32,350	(148,447)		(148,447)
Interest and Fiscal Charges	18,544			(18,544)		(18,544)
<i>Total Governmental Activities</i>	<u>3,599,406</u>	<u>364,091</u>	<u>647,255</u>	<u>(2,588,060)</u>	<u>0</u>	<u>(2,588,060)</u>
Business-Type Activities						
Water	1,399,617	1,384,522			(15,095)	(15,095)
Sewer	1,038,047	1,021,331			(16,716)	(16,716)
Garbage	397,258	303,649			(93,609)	(93,609)
<i>Total Business-Type Activities</i>	<u>2,834,922</u>	<u>2,709,502</u>	<u>0</u>	<u>0</u>	<u>(125,420)</u>	<u>(125,420)</u>
<i>Total</i>	<u>\$ 6,434,328</u>	<u>\$ 3,073,593</u>	<u>\$ 647,255</u>	<u>(2,588,060)</u>	<u>(125,420)</u>	<u>(2,713,480)</u>
General Revenues						
Property Taxes Levied for:						
General Purposes				177,550		177,550
Cemetery				23,692		23,692
Fire Protection				207,616		207,616
Streets				92,603		92,603
Income Taxes Levied for General Purposes				1,147,735		1,147,735
Grants and Entitlements not Restricted to Specific Programs				410,262		410,262
Investment Earnings				111,934	128	112,062
Miscellaneous				59,495	66,316	125,811
<i>Total General Revenues</i>				<u>2,230,887</u>	<u>66,444</u>	<u>2,297,331</u>
Transfers				(15,500)	15,500	0
<i>Total General Revenues and Transfers</i>				<u>2,215,387</u>	<u>81,944</u>	<u>2,297,331</u>
Change in Net Assets				(372,673)	(43,476)	(416,149)
<i>Net Assets Beginning of Year</i>				<u>5,817,559</u>	<u>4,957,028</u>	<u>10,774,587</u>
<i>Net Assets End of Year</i>				<u>\$5,444,886</u>	<u>\$4,913,552</u>	<u>\$10,358,438</u>

See accompanying notes to the basic financial statements

City of Wellston, Ohio

Balance Sheet

Governmental Funds

December 31, 2008

	<u>General</u>	<u>Fire Levy</u>	<u>Permanent Investment</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and					
Cash Equivalents	\$	\$	\$ 1,529,066	\$ 1,263,268	\$ 2,792,334
Receivables:					
Accrued Interest	2,834				2,834
Intergovernmental	42,510			143,327	185,837
Permissive Motor Vehicle License Tax				24,856	24,856
Interfund	1,064,269		904,769		1,969,038
Income Taxes	294,604				294,604
Property Taxes	246,363	221,485		120,235	588,083
Loans				234,210	234,210
Prepaid Items	6,565	1,128		11,091	18,784
<i>Total Assets</i>	<u>\$ 1,657,145</u>	<u>\$ 222,613</u>	<u>\$ 2,433,835</u>	<u>\$ 1,796,987</u>	<u>\$ 6,110,580</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$ 37,590	\$ 13,344	\$	\$ 58,628	\$ 109,562
Accrued Wages and Benefits Payable	10,762	2,626		2,433	15,821
Intergovernmental Payable	171,832	29,389		56,109	257,330
Deferred Revenue	274,703	221,485		240,670	736,858
Interfund Payable	904,769	69,418		444,321	1,418,508
<i>Total Liabilities</i>	<u>1,399,656</u>	<u>336,262</u>	<u>0</u>	<u>802,161</u>	<u>2,538,079</u>
Fund Balances					
Reserved for Endowments				204,347	204,347
Reserved for Loans Receivable				213,588	213,588
Unreserved, Undesignated, Reported in:					
General Fund	257,489				257,489
Special Revenue Funds (Deficit)		(113,649)		515,642	401,993
Capital Projects Funds			2,433,835	17,768	2,451,603
Permanent Funds				43,481	43,481
<i>Total Fund Balance (Deficit)</i>	<u>257,489</u>	<u>(113,649)</u>	<u>2,433,835</u>	<u>994,826</u>	<u>3,572,501</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 1,657,145</u>	<u>\$ 222,613</u>	<u>\$ 2,433,835</u>	<u>\$ 1,796,987</u>	<u>\$ 6,110,580</u>

See accompanying notes to the basic financial statements

City of Wellston, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2008*

Total Governmental Fund Balances \$ 3,572,501

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

Capital Assets used in governmental activities are not
 financial resources and therefore are not reported in the funds. 2,080,746

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

Property Taxes	127,903	
Permissive Motor Vehicle License Taxes	17,723	
Intergovernmental Revenues	<u>131,052</u>	
Total		276,678

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

Compensated Absences Payable	(62,855)	
Accrued Interest Payable	(6,038)	
Long-Term Loans Payable	<u>(416,146)</u>	
Total		<u>(485,039)</u>

Net Assets of Governmental Activities \$ 5,444,886

See accompanying notes to the basic financial statements

City of Wellston, Ohio
*Combined Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2008*

	General	Fire Levy	Permanent Improvement	Other Governmental Funds	Totals Governmental Funds
Revenues					
Property Taxes	\$ 172,277	\$ 202,104	\$	\$ 113,303	\$ 487,684
Municipal Income Taxes	1,147,735				1,147,735
Permissive Motor Vehicle License Taxes				53,033	53,033
Intergovernmental	263,531	138,111		599,046	1,000,688
Charges for Services	448	20,037		65,888	86,373
Fines and Forfeitures	63,990			3,669	67,659
Licenses and Permits	17,620				17,620
Investment Earnings	111,672			17,790	129,462
Rent	84,172			108,267	192,439
Contributions and Donations				19,199	19,199
Other	6,781	6,474		46,240	59,495
<i>Total Revenues</i>	<u>1,868,226</u>	<u>366,726</u>	<u>0</u>	<u>1,026,435</u>	<u>3,261,387</u>
Expenditures					
Current:					
General Government	627,677			195,201	822,878
Security of Persons and Property	1,269,165	406,990		7,643	1,683,798
Transportation				516,465	516,465
Leisure Time Activities				325,057	325,057
Public Health Services				171,837	171,837
Community Environment				266,231	266,231
Debt Service:					
Principal Retirement		66,751		18,744	85,495
Interest and Fiscal Charges		17,375		1,802	19,177
<i>Total Expenditures</i>	<u>1,896,842</u>	<u>491,116</u>	<u>0</u>	<u>1,502,980</u>	<u>3,890,938</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(28,616)</u>	<u>(124,390)</u>	<u>0</u>	<u>(476,545)</u>	<u>(629,551)</u>
Other Financing Sources (Uses)					
Transfers In				13,496	13,496
Transfers Out	(13,496)				(13,496)
<i>Total Other Financing Sources (Uses)</i>	<u>(13,496)</u>	<u>0</u>	<u>0</u>	<u>13,496</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(42,112)	(124,390)	0	(463,049)	(629,551)
<i>Fund Balances Beginning of Year</i>	<u>299,601</u>	<u>10,741</u>	<u>2,433,835</u>	<u>1,457,875</u>	<u>4,202,052</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$ 257,489</u>	<u>\$ (113,649)</u>	<u>\$ 2,433,835</u>	<u>\$ 994,826</u>	<u>\$ 3,572,501</u>

See accompanying notes to the basic financial statements

City of Wellston, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2008*

Net Change in Fund Balances - Total Governmental Funds \$ (629,551)

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

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

Capital Asset Additions	321,570	
Depreciation Expense	<u>(128,561)</u>	193,009

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

Grants	(34,257)	
Permissive Motor Vehicle License Tax	1,326	
Delinquent Property Taxes	<u>13,777</u>	(19,154)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 85,495

In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest is expended when due. 633

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

Compensated Absences Payable		<u>(3,105)</u>
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Change in Net Assets of Governmental Activities \$ (372,673)

See accompanying notes to the basic financial statements

City of Wellston, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)*
General Fund
For the Year Ended December 31, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$	\$	\$ 172,277	\$ 172,277
Municipal Income Taxes	0	0	1,224,341	1,224,341
Intergovernmental	0	0	263,531	263,531
Charges for Services	0	0	448	448
Fines and Forfeitures	0	0	63,990	63,990
Licenses and Permits	0	0	17,620	17,620
Investment Earnings	0	0	111,941	111,941
Rent	0	0	84,172	84,172
Other	0	0	6,781	6,781
<i>Total Revenues</i>	<u>0</u>	<u>0</u>	<u>1,945,101</u>	<u>1,945,101</u>
Expenditures				
Current:				
General Government	0	0	583,438	(583,438)
Security of Persons and Property	0	0	1,295,723	(1,295,723)
<i>Total Expenditures</i>	<u>0</u>	<u>0</u>	<u>1,879,161</u>	<u>(1,879,161)</u>
<i>Excess of Revenues Over Expenditures</i>	0	0	65,940	65,940
Other Financing Uses				
Transfers Out	0	0	(13,496)	(13,496)
<i>Net Change in Fund Balance</i>	0	0	52,444	52,444
<i>Fund Balance Beginning of Year</i>	<u>107,006</u>	<u>107,006</u>	<u>107,006</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ 107,006</u>	<u>\$ 107,006</u>	<u>\$ 159,450</u>	<u>\$ 52,444</u>

See accompanying notes to the basic financial statements

City of Wellston, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)*
Fire Levy Fund
For the Year Ended December 31, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$	\$	\$ 202,104	\$ 202,104
Intergovernmental	0	0	138,111	138,111
Charges for Services	0	0	20,037	20,037
Other	0	0	6,474	6,474
<i>Total Revenues</i>	0	0	366,726	366,726
Expenditures				
Current:				
Security of Persons and Property	0	0	394,232	(394,232)
Debt Service:				
Principal Retirement	0	0	66,751	(66,751)
Interest and Fiscal Charges	0	0	17,375	(17,375)
<i>Total Expenditures</i>	0	0	478,358	(478,358)
<i>Net Change in Fund Balance</i>	0	0	(111,632)	(111,632)
<i>Fund Balance Beginning of Year</i>	42,214	42,214	42,214	0
<i>Fund Balance (Deficit) End of Year</i>	\$ 42,214	\$ 42,214	\$ (69,418)	\$ (111,632)

See accompanying notes to the basic financial statements

City of Wellston, Ohio
Statement of Fund Net Assets
Enterprise Funds
December 31, 2008

	Water	Sewer	Garbage	Total Enterprise Funds
Assets				
Current:				
Accounts Receivable	\$ 242,020	\$ 173,915	\$ 12,071	\$ 428,006
Prepaid Items	5,067	3,721	332	9,120
Restricted Assets:				
Customer Deposits	161,631			161,631
<i>Total Current Assets</i>	<u>408,718</u>	<u>177,636</u>	<u>12,403</u>	<u>598,757</u>
Noncurrent:				
Depreciable Capital Assets, Net	2,337,162	7,349,197	10,100	9,696,459
<i>Total Noncurrent Assets</i>	<u>2,337,162</u>	<u>7,349,197</u>	<u>10,100</u>	<u>9,696,459</u>
<i>Total Assets</i>	<u>2,745,880</u>	<u>7,526,833</u>	<u>22,503</u>	<u>10,295,216</u>
Liabilities				
Current:				
Accounts Payable	34,989	16,081	26,355	77,425
Accrued Wages and Benefits Payable	6,242	2,985	2,378	11,605
Intergovernmental Payable	97,111	63,417	28,836	189,364
Accrued Interest Payable	6,480	53,952	179	60,611
Interfund Payable	396,045	24,065	130,420	550,530
Customer Deposits Payable	161,631			161,631
OPWC Loans Payable	36,492	3,032		39,524
OWDA Loans Payable	79,240	126,685		205,925
Notes Payable	19,894		17,742	37,636
Compensated Absences Payable	19,140	4,560	5,276	28,976
Revenue Bonds Payable	71,429	51,000		122,429
<i>Total Current Liabilities</i>	<u>928,693</u>	<u>345,777</u>	<u>211,186</u>	<u>1,485,656</u>
Long-Term:				
OPWC Loans Payable	202,982	31,836		234,818
OWDA Loans Payable	420,611	939,961		1,360,572
Notes Payable	35,103		15,231	50,334
Revenue Bonds Payable		2,220,000		2,220,000
Compensated Absences Payable	21,971		8,313	30,284
<i>Total Long-Term Liabilities</i>	<u>680,667</u>	<u>3,191,797</u>	<u>23,544</u>	<u>3,896,008</u>
<i>Total Liabilities</i>	<u>1,609,360</u>	<u>3,537,574</u>	<u>234,730</u>	<u>5,381,664</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	1,471,411	3,976,683	(22,873)	5,425,221
Unrestricted (Deficit)	(334,891)	12,576	(189,354)	(511,669)
<i>Total Net Assets (Deficit)</i>	<u>\$ 1,136,520</u>	<u>\$ 3,989,259</u>	<u>\$ (212,227)</u>	<u>\$ 4,913,552</u>

See accompanying notes to the basic financial statements

City of Wellston, Ohio
Statement of Revenues, Expenses and Changes in Fund Net Assets
Enterprise Funds
For the Year Ended December 31, 2008

	Water	Sewer	Garbage	Total Enterprise Funds
Operating Revenues				
Charges for Services	\$ 1,384,522	\$ 1,021,331	\$ 303,649	\$ 2,709,502
Other	23,543	25,369	17,404	66,316
<i>Total Operating Revenues</i>	<u>1,408,065</u>	<u>1,046,700</u>	<u>321,053</u>	<u>2,775,818</u>
Operating Expenses				
Personal Services	530,617	227,480	171,891	929,988
Fringe Benefits	307,948	156,418	90,095	554,461
Contractual Services	281,347	149,348	86,011	516,706
Materials and Supplies	180,861	101,351	27,764	309,976
Depreciation	81,397	264,831	20,200	366,428
<i>Total Operating Expenses</i>	<u>1,382,170</u>	<u>899,428</u>	<u>395,961</u>	<u>2,677,559</u>
<i>Operating Income (Loss)</i>	<u>25,895</u>	<u>147,272</u>	<u>(74,908)</u>	<u>98,259</u>
Non-Operating Revenues (Expenses)				
Investment Earnings	128			128
Interest and Fiscal Charges	(17,447)	(138,619)	(1,297)	(157,363)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(17,319)</u>	<u>(138,619)</u>	<u>(1,297)</u>	<u>(157,235)</u>
<i>Loss Before Capital Contributions</i>	8,576	8,653	(76,205)	(58,976)
Capital Contributions	15,500			15,500
<i>Change in Net Assets</i>	24,076	8,653	(76,205)	(43,476)
<i>Net Assets (Deficit) Beginning of Year</i>	<u>1,112,444</u>	<u>3,980,606</u>	<u>(136,022)</u>	<u>4,957,028</u>
<i>Net Assets (Deficit) End of Year</i>	<u>\$ 1,136,520</u>	<u>\$ 3,989,259</u>	<u>\$ (212,227)</u>	<u>\$ 4,913,552</u>

See accompanying notes to the basic financial statements

City of Wellston, Ohio
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2008

	Water	Sewer	Garbage	Total Enterprise Funds
Increase (Decrease) in Cash and Cash Equivalents				
Cash Flows from Operating Activities				
Cash Received from Customers	\$ 1,321,510	\$ 968,821	\$ 293,644	\$ 2,583,975
Other Cash Receipts	23,543	25,369	17,404	66,316
Cash Payments for Employee Services and Benefits	(840,864)	(382,398)	(261,937)	(1,485,199)
Cash Payments for Goods and Services	(434,946)	(222,069)	(95,816)	(752,831)
Utility Deposits Returned	(8,155)			(8,155)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>61,088</u>	<u>389,723</u>	<u>(46,705)</u>	<u>404,106</u>
Cash Flows from Noncapital Financing Activities				
Advances In	396,048	24,065	130,420	550,533
Advances Out	(251,164)	(88,546)	(65,150)	(404,860)
<i>Net Cash Provided by (Used for) Noncapital Financing Activities</i>	<u>144,884</u>	<u>(64,481)</u>	<u>65,270</u>	<u>145,673</u>
Cash Flows from Capital and Related Financing Activities				
Payments for Capital Acquisitions	(3,600)			(3,600)
Principal Paid on Revenue Bonds	(71,428)	(35,000)		(106,428)
Principal Paid on General Obligation Bonds		(14,000)		(14,000)
Principal Paid on Other Loans	(6,436)		(17,175)	(23,611)
Principal Paid on OWDA Loans	(77,688)	(131,794)		(209,482)
Principal Paid on OPWC Loans	(36,493)	(3,032)		(39,525)
Interest Paid on Revenue Bonds		(82,900)		(82,900)
Interest Paid on General Obligation Bonds	(6,140)	(33,100)		(39,240)
Interest Paid on Other Loans	(922)		(1,390)	(2,312)
Interest Paid on OWDA Loans	(11,551)	(25,416)		(36,967)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(214,258)</u>	<u>(325,242)</u>	<u>(18,565)</u>	<u>(558,065)</u>
Cash Flows from Investing Activities				
Investment Earnings	131			131
<i>Net Decrease in Cash and Cash Equivalents</i>	(8,155)	0	0	(8,155)
<i>Cash and Cash Equivalents Beginning of Year</i>	169,786	0	0	169,786
<i>Cash and Cash Equivalents End of Year</i>	<u>\$ 161,631</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 161,631</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities				
Operating Income (Loss)	\$ 25,895	\$ 147,272	\$ (74,908)	\$ 98,259
Adjustments:				
Depreciation	81,397	264,831	20,200	366,428
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(63,012)	(52,510)	(10,005)	(125,527)
Increase in Prepaid Items	(1,163)	(818)	(64)	(2,045)
Increase in Accounts Payable	25,986	29,448	18,023	73,457
Decrease in Accrued Wages and Benefits Payable	(15,083)	(6,556)	(3,365)	(25,004)
Increase in Compensated Absences Payable	7,165	3,599	783	11,547
Decrease in Customer Deposits Payable	(8,155)			(8,155)
Increase (Decrease) in Intergovernmental Payable	8,058	4,457	2,631	15,146
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>\$ 61,088</u>	<u>\$ 389,723</u>	<u>\$ (46,705)</u>	<u>\$ 404,106</u>

Noncash Transactions:

During 2008, the County Sales Tax Special Revenue Fund acquired \$15,500 in capital assets for the Water Enterprise Fund.

See accompanying notes to the basic financial statements

City of Wellston, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2008

Assets

Equity in Pooled Cash and Cash Equivalents	<u>\$ 27,060</u>
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Liabilities

Due to Others	<u>\$ 27,060</u>
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See accompanying notes to the basic financial statements

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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

Reporting Entity

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

A. Basis of Presentation

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

General Fund – The General Fund accounts for 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.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Fire Levy Fund – The Fire Levy Special Revenue Fund is used to account for proceeds of a 3.5 mill levy passed to provide fire protection services to the citizens of Wellston.

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

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

Proprietary Funds

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

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

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

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

Fiduciary Funds

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

C. Measurement Focus

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

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

D. Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions

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

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

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2008, but which were levied to finance year 2009 operations have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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

Expenses/Expenditures

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

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

E. Budgetary Process

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

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

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

F. Cash and Cash Equivalents

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

During 2008, investments were limited to certificates of deposit, which are reported at cost.

Provisions of the Ohio Revised Code restrict investment procedures. Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. During 2008, interest was distributed to the General Fund and to the Cemetery, Recreation, CDBG Revolving Loan, and UDAG Revolving Loan Special Revenue Funds. Interest revenue credited to the General Fund during 2008 amounted to \$111,672, which includes \$108,581 assigned from other City funds.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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

G. Receivables and Payables

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

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2008, 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.

I. Interfund Balances

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

J. Restricted Assets

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

K. Capital Assets

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

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

All reported capital assets are depreciated except for land, certain land improvements, and construction in progress. Improvements are depreciated over the remaining useful life of the related capital assets.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

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

L. Compensated Absences

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

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

M. Accrued Liabilities and Long-Term Obligations

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

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

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

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

N. Fund Balance Reserves

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

O. Net Assets

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

The government-wide statement of net assets reports \$3,921,716 of restricted net assets, none of which is restricted by enabling legislation.

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

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

P. Contributions of Capital

Contributions of capital in the proprietary fund financial statements arise from assets purchased by other funds for use by proprietary funds.

Q. Interfund Transactions

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

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

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

R. Estimates

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

S. Operating Revenues and Expenses

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

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City that are either unusual in nature or infrequent in occurrence.

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE

A. Fund Deficits

The following funds had deficit fund balances/net assets as of December 31, 2008:

<u>Fund Type/Fund</u>	
<u>Special Revenue:</u>	
Fire Levy	\$113,649
Street	90,728
Cemetery	340,815
Railroad Depot	3,738
Swimming Pool	22,215
<u>Enterprise:</u>	
Garbage	212,227

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

B. Legal Compliance

The City failed to file the certification of the total amounts available for expenditures for all funds and balances. They also failed to file appropriations, did not receive a Certificate of Estimated Resources, and did not obtain a certification from the County Auditor that appropriations did not exceed estimated resources. This has caused all expenditures to be in violation of budgetary law.

Money 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. The General Fund had a Cash and Cash Equivalents balance of \$0 at December 31, 2008. In order for the General Fund to cover all negative cash balances at December 31 for other funds, an interfund balance of \$904,769 was required. This indicates noncompliance with Section 5705.10, O.R.C.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Prepaid items are reported on the balance sheet (GAAP basis), but not on the budgetary basis.
4. Unrecorded cash and prepaid items are reported on the balance sheet (GAAP) but not on the budgetary basis.

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

Net Change in Fund Balances

	General Fund	Fire Levy Fund
GAAP Basis	(\$42,112)	(\$124,390)
Net Adjustment for Revenue Accruals	76,925	0
Net Adjustment for Expenditure Accruals	16,317	12,231
Prepaid Items Beginning of Year	7,929	1,655
End of Year:		
Unreported Cash	(50)	0
Prepaid Items End of Year	(6,565)	(1,128)
Budget Basis	\$52,444	(\$111,632)

NOTE 5 - 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.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

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

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, the carrying amount of the City's deposits was \$2,981,025 and the bank balance was \$3,175,177. Of the bank balance, \$1,008,939 was covered by Federal depository insurance and \$2,166,238 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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

NOTE 6 - 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 2008 for real and public utility property taxes represents collections of 2007 taxes. Property tax payments received during 2008 for tangible personal property (other than public utility property) is for 2008 taxes.

2008 real property taxes are levied after October 1, 2008, on assessed value as of January 1, 2008, the lien date. Assessed values are established by State law 35 percent of the appraised value. 2008 real property taxes are collected in and intended to finance 2009.

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. 2008 public utility property taxes became a lien December 31, 2007, are levied after October 1, 2008, and are collected in 2008 with real property taxes.

2008 tangible personal property taxes are levied after October 1, 2008, on the value as of December 31, 2007. Collections are made in 2008. Tangible personal property assessments for machinery and equipment were 25 percent of true value and 23 percent of true value of inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2008 is 6.25 percent and zero for 2009.

The full tax rate for all City operations for the year ended December 31, 2008, was \$8.70 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2008 property tax receipts were based are as follows:

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

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

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

The County Treasurer collects property taxes on behalf of Jackson County, including the City of Wellston. The County Auditor periodically remits to the City its portion of the taxes collected. In the governmental funds, property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2008, and for which there is an enforceable legal claim.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2008 operations. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

NOTE 7 - INCOME TAX

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

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

Income tax proceeds are to be used for the purposes of general municipal operations, maintenance of facilities, new equipment, extension and enlargement of municipal services and facilities and capital improvements of the City of Wellston. In 2008, all proceeds were receipted into the General Fund.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2008, consisted primarily of taxes; loans; interfund receivables; intergovernmental receivables arising from grants, entitlements, and shared revenues; and utility accounts. All receivables are considered fully collectible. Delinquent utility accounts receivable (billings for user charged services) are certified and collected as special assessments, subject to foreclosure for nonpayment. The financial statements reflect loans receivable of \$234,210 for principal owed to the City for CDBG and UDAG revolving loan monies loaned to businesses for improvement and expansion efforts. All receivables are expected to be collected within one year, with the exception of delinquent property taxes deemed collectible by the County Auditor and recorded as a receivable in the amount of \$127,903, as well as \$241,058 of the outstanding CDBD and UDAG revolving loan receivables.

A summary of intergovernmental receivables follows:

<u>Governmental Activities:</u>	
Local Government Subsidies	\$42,510
Gasoline Tax	93,227
Motor Vehicle License Tax	<u>50,100</u>
Total Governmental Activities	<u><u>\$185,837</u></u>

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

NOTE 9 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2008, was as follows:

	Balance 12/31/2007	Additions	Reductions	Balance 12/31/2008
Governmental Activities:				
Non-Depreciable Capital Assets:				
Land	\$103,550	\$0	\$0	\$103,550
Land Improvements	0	81,141	0	81,141
Construction in Progress	0	36,548	0	36,548
Total Non-Depreciable Capital Assets	<u>103,550</u>	<u>117,689</u>	<u>0</u>	<u>221,239</u>
Depreciable Capital Assets:				
Land Improvements	0	27,579	0	27,579
Buildings and Improvements	993,601	22,770	0	1,016,371
Equipment	181,151	0	0	181,151
Infrastructure	422,823	0	0	422,823
Vehicles	1,436,827	153,532	0	1,590,359
Total Depreciable Capital Assets	<u>3,034,402</u>	<u>203,881</u>	<u>0</u>	<u>3,238,283</u>
Accumulated Depreciation:				
Land Improvements	0	(689)	0	(689)
Buildings and Improvements	(407,081)	(23,283)	0	(430,364)
Equipment	(137,317)	(6,104)	0	(143,421)
Infrastructure	(82,641)	(33,307)	0	(115,948)
Vehicles	(623,176)	(65,178)	0	(688,354)
Total Accumulated Depreciation	<u>(1,250,215)</u>	<u>(128,561) *</u>	<u>0</u>	<u>(1,378,776)</u>
Total Depreciable Capital Assets, Net	<u>1,784,187</u>	<u>75,320</u>	<u>0</u>	<u>1,859,507</u>
Governmental Activities Capital Assets, Net	<u>\$1,887,737</u>	<u>\$193,009</u>	<u>\$0</u>	<u>\$2,080,746</u>

*Depreciation expense was charged to governmental activities as follows:

Governmental Activities:	
Security of Persons and Property	\$52,420
Transportation	49,278
Leisure Time Activities	2,933
Public Health Services	2,567
Community Environment	21,363
Total Depreciation Expense	<u>\$128,561</u>

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

	Balance 12/31/2007	Additions	Reductions	Balance 12/31/2008
<u>Business - Type Activities:</u>				
Depreciable Capital Assets:				
Buildings and Improvements	\$9,973,756	\$0	\$0	\$9,973,756
Equipment	498,610	15,500	0	514,110
Infrastructure	3,952,472	0	0	3,952,472
Vehicles	589,269	0	0	589,269
Total Depreciable Capital Assets	<u>15,014,107</u>	<u>15,500</u>	<u>0</u>	<u>15,029,607</u>
Accumulated Depreciation:				
Buildings and Improvements	(3,449,428)	(249,343)	0	(3,698,771)
Equipment	(219,028)	(29,495)	0	(248,523)
Infrastructure	(821,891)	(52,373)	0	(874,264)
Vehicles	(476,373)	(35,217)	0	(511,590)
Total Accumulated Depreciation	<u>(4,966,720)</u>	<u>(366,428)</u>	<u>0</u>	<u>(5,333,148)</u>
Total Depreciable Capital Assets, Net	<u>10,047,387</u>	<u>(350,928)</u>	<u>0</u>	<u>9,696,459</u>
Business - Type Activities Capital Assets, Net	<u>\$10,047,387</u>	<u>(\$350,928)</u>	<u>\$0</u>	<u>\$9,696,459</u>

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

Plan Description – The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan 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 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2008, members in state and local classifications contributed 10.0 percent of covered payroll and public safety and law enforcement members contributed 10.1 percent.

The City’s contribution rate for 2008 was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the City’s contribution was 17.4 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2008, 2007, and 2006, were \$100,099, \$114,178 and \$128,002, respectively; 74.47 percent has been contributed for 2008 and 100 percent for 2007 and 2006. Contributions to the member-directed plan for 2008 were \$4,262 made by the City and \$3,044 made by the plan members.

B. Ohio Police and Fire Pension Fund

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability pension 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.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations. The City's contribution was 19.5 percent for police officers and 24 percent for firefighters. Contribution rates are established by State statute. For 2008, a portion of the City's contribution equal to 6.75 percent of covered payroll was allocated to fund the post-employment health care plan. The City's pension contributions to OP&F for police and firefighters were \$58,535 and \$23,131 for the year ended December 31, 2008, \$56,750 and \$21,016 for the year ended December 31, 2007, and \$47,125 and \$20,479 for the year ended December 31, 2006. The full amount has been contributed for 2007 and 2006. 67.51 percent has been contributed for police and 65.54 percent has been contributed for firefighters for 2008.

NOTE 11 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

Plan Description – OPERS maintains a cost sharing multiple employer defined benefit post-employment health care plan for qualifying members of both the traditional and combined pension plans. Members of the member directed plan do not qualify for ancillary benefits, including post-employment health care. The plan includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement.

To qualify for post-employment health care coverage, age and service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not require, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). State statute requires that public employers fund post-employment health care through contributions to OPERS. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of post-employment health care.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2008, state and local employers contributed at a rate of 14 percent of covered payroll (17.40 percent for public safety and law enforcement). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding post-employment health care benefits. For 2008, the amount of the employer contributions which was allocated to fund post-employment health care was 7 percent of covered payroll.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits by the retiree or the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2008, 2007, and 2006, were \$100,099, \$75,207 and \$62,610, respectively; 74.47 percent has been contributed for 2008 and 100 percent for 2007 and 2006.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

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

OP&F provides access to post-retirement healthcare coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit or is a spouse or eligible dependent child of such person.

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

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

Funding policy – OP&F's post-employment health care plan was established and is administered as an Internal Revenue Code 401(h) account within the defined benefit pension plan, under the authority granted by the Ohio Revised code to the OP&F Board of Trustees. The Ohio Revised Code sets the contribution rates for participating employers and for plan members to the OP&F. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50 percent and 24 percent of covered payroll for police and fire employers, respectively.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

The Board of Trustees is authorized to allocate a portion of the total employer contributions made to the pension plan to the 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2008, the employer contribution allocated to the healthcare plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Section 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$30,989 and \$9,051 for the year ended December 31, 2008, \$30,044 and \$8,224 for the year ended December 31, 2007, and \$31,083 and \$9,767 for the year ended December 31, 2006. The full amount has been contributed for 2007 and 2006. 67.51 percent has been contributed for police and 65.54 percent has been contributed for firefighters for 2008.

NOTE 12 – OTHER EMPLOYEE BENEFITS

A. Deferred Compensation Plans

City employees and elected officials participate in a statewide deferred compensation plan created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

B. Employee Insurance Benefits

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

The City provides comprehensive major medical insurance through Anthem Blue Cross and Blue Shield. The total monthly premium for single coverage is \$417.96; for an employee with one child coverage is \$705.53; for an employee and spouse coverage is \$918.70; and for family coverage is \$1,290.25. The City pays 100 percent of premiums for elected officials and 90 percent of premiums for all other employees. Premiums are paid from the same funds that pay the employees' salaries.

C. Compensated Absences

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

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

NOTE 13 - RISK MANAGEMENT

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

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

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

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

For 2008, the City paid the state workers' compensation system a premium based on a rate per \$100 of salaries. This rate is calculated based on accidents, history, and administrative costs. The participation in this state mandated insurance fund allows the City to transfer all risk associated with workers compensation.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

NOTE 14 - LONG-TERM OBLIGATIONS

Changes in the City's long-term obligations during 2008 consist of the following:

	Outstanding 12/31/2007	Additions	Reductions	Outstanding 12/31/2008	Amounts Due Within One Year
<u>Governmental Activities:</u>					
Fire Trucks Loan - 2001 - \$221,000 - 6.04%	\$170,399	\$0	\$8,012	\$162,387	\$9,567
Street Sweeper Loan - 2004 - \$102,561 - 3.4%	52,989	0	17,077	35,912	17,654
Fire Trucks Loan - 2004 - \$413,052 - 3%	244,919	0	58,739	186,180	60,486
Jackson County Commissioners CDBG Loan - 2003 - \$50,000 - 0%	33,334	0	1,667	31,667	4,999
Total Loans	501,641	0	85,495	416,146	92,706
Compensated Absences Payable	59,750	10,439	7,334	62,855	29,463
Total Governmental Activities	<u>\$561,391</u>	<u>\$10,439</u>	<u>\$92,829</u>	<u>\$479,001</u>	<u>\$122,169</u>
<u>Business-Type Activities:</u>					
<u>General Obligation Bonds</u>					
Sewer Farmers Home Administration - 1993 - 5.00%	\$662,000	\$0	\$14,000	\$648,000	\$15,000
<u>Revenue Bonds</u>					
Water System Improvement - 2002 - 4.10%	142,857	0	71,428	71,429	71,429
Sewer Farmers Home Administration - 1993 - 5.00%	1,658,000	0	35,000	1,623,000	36,000
Total Revenue Bonds Payable	<u>1,800,857</u>	<u>0</u>	<u>106,428</u>	<u>1,694,429</u>	<u>107,429</u>
<u>OPWC Loans</u>					
Water Line Improvements - 1996 - 0.00%	260,000	0	32,500	227,500	32,500
Water System Rennovations - 1992 - 0.00%	15,967	0	3,993	11,974	3,992
Green Acres Sewer Line - 2000 - 0.00%	37,900	0	3,032	34,868	3,032
Total OPWC Loans Payable	<u>313,867</u>	<u>0</u>	<u>39,525</u>	<u>274,342</u>	<u>39,524</u>
<u>OWDA Loans</u>					
Water Line Improvement - 1995 - 2.00%	577,539	0	77,688	499,851	79,240
Sewer Fund - 1996 - 2.20%	445,410	0	48,204	397,206	49,271
Sewer Fund - 2001 - 2.20%	753,030	0	83,590	669,440	77,414
Total OWDA Loans Payable	<u>1,775,979</u>	<u>0</u>	<u>209,482</u>	<u>1,566,497</u>	<u>205,925</u>
<u>Other Loans</u>					
WSOS Community Action Safe Water - 2002 - 3.00%	61,433	0	6,436	54,997	19,894
Garbage Truck First National Wellston - 2004 - 3.25%	50,148	0	17,175	32,973	17,742
Total Other Loans Payable	<u>111,581</u>	<u>0</u>	<u>23,611</u>	<u>87,970</u>	<u>37,636</u>
Compensated Absences Payable	47,713	16,959	5,412	59,260	28,976
Total Business-Type Activities	<u>\$4,711,997</u>	<u>\$16,959</u>	<u>\$398,458</u>	<u>\$4,330,498</u>	<u>\$434,490</u>

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

Governmental Activities:

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

The fire trucks loan obtained on January 14, 2004, was for \$413,052, and matures on November 11, 2010. This obligation will be paid from the General Fund.

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

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

The annual requirements to retire all governmental loans outstanding as of December 31, 2008, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$92,706	\$16,628
2010	94,027	13,603
2011	77,460	10,483
2012	14,729	7,935
2013	15,549	7,205
2014-2018	86,242	23,746
2019-2020	35,433	2,694
	<u>\$416,146</u>	<u>\$82,294</u>

Business-Type Activities:

General Obligation Bonds

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

Principal and interest requirements to retire the City's general obligation bonds outstanding at December 31, 2008 are:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$15,000	\$32,400
2010	15,000	31,650
2011	16,000	30,900
2012	17,000	30,100
2013	18,000	29,250
2014-2018	102,000	132,050
2019-2023	131,000	103,750
2024-2028	167,000	67,650
2029-2032	167,000	21,400
	<u>\$648,000</u>	<u>\$479,150</u>

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Revenue Bonds

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

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

Principal and interest requirements to retire the City's revenue bonds outstanding at December 31, 2008 are:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$107,429	\$80,750
2010	38,000	79,350
2011	40,000	77,450
2012	42,000	75,450
2013	44,000	73,350
2014-2018	258,000	331,200
2019-2023	327,000	260,200
2024-2028	420,000	169,500
2029-2032	418,000	53,500
	<u>\$1,694,429</u>	<u>\$1,200,750</u>

OPWC Loans

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

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

Principal requirements to retire the City's OPWC loans outstanding at December 31, 2008 are:

<u>Year</u>	<u>Principal</u>
2009	\$39,524
2010	39,524
2011	39,524
2012	35,532
2013	35,532
2014-2018	80,160
2019-2020	4,546
Total	<u>\$274,342</u>

OWDA Loans

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

OWDA loans were obtained in 1996 and 2001 in the amounts of \$930,173 and \$1,221,145, respectively, for sewer upgrades. Repayment will be made from user fees and will be paid off in 2011 and 2016, respectively. Principal and interest requirements to retire the City's enterprise OWDA loans outstanding at December 31, 2008 are as follow:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$205,925	\$32,770
2010	210,313	28,382
2011	214,792	23,903
2012	219,371	19,325
2013	224,043	14,652
2014-2016	492,053	16,690
Total	<u>\$1,566,497</u>	<u>\$135,722</u>

Other Loans

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

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

Principal and interest requirements to retire the City's other loans outstanding at December 31, 2008 were:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$37,636	\$2,984
2010	28,996	1,180
2011	14,181	535
2012	7,157	107
Total	<u>\$87,970</u>	<u>\$4,806</u>

As of December 31, 2008, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$6,442,950, with an unvoted debt margin of \$2,653,824.

Pledged Revenues

The City has pledged future customer water revenues, net of specified operating expenses, to repay \$500,000 in water revenue bonds issued in 2002, as well as a \$1,459,117 Ohio Water Development Authority loan issued in 1995. The bonds are payable solely from customer net revenues and are payable through 2009. The loan is also payable solely from customer net revenues. The final loan payment will be in 2014. Net revenues include all revenues received by the water utility less all operating expenses other than depreciation expense. Annual principal and interest payments on the bonds and loan are expected to require more than 100 percent of net revenues. The total principal and interest remaining to be paid on the bonds and loan is \$609,775. Principal and interest payments for the current year were \$166,516, net revenues were \$107,292 and total revenues were \$1,408,065.

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

The bonds and loan are payable solely from customer net revenues and are payable through 2032. Net revenues include all revenues received by the sewer utility less all operating expenses other than depreciation expense. Annual principal and interest payments on the bonds are expected to require 69 percent of net revenues. The total principal and interest remaining to be paid on the bonds and loan is \$3,990,540. Principal and interest payments for the current year were \$275,110, net revenues were \$412,103 and total revenues were \$1,046,700.

NOTE 15 - CONTINGENT LIABILITIES

A. Litigation

The City is not currently party to legal proceedings.

B. Federal and State Grants

For the period January 1, 2008 to December 31, 2008, the City received federal and state grants for specific purposes that are subject to review and audit by grantor agencies or their designee. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any, would be immaterial.

NOTE 16 - INTERFUND BALANCES

Interfund Receivable and Interfund Payable balances at December 31, 2008, consist of the following:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General	\$1,064,269	\$904,769
 <u>Special Revenue Funds:</u>		
Fire Levy	0	69,418
Streer	0	99,175
Cemetery	0	323,946
Railroad Depot	0	3,701
Swimming Pool	0	17,499
Total Special Revenue Funds	<u>0</u>	<u>513,739</u>
Permanent Investment Capital Improvement Fund	<u>904,769</u>	<u>0</u>
 <u>Enterprise Funds:</u>		
Water	0	396,045
Sewer	0	24,065
Garbage	0	130,420
Total Enterprise Funds	<u>0</u>	<u>550,530</u>
Total	<u>\$1,969,038</u>	<u>\$1,969,038</u>

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

NOTE 17 – RELATED PARTY TRANSACTIONS

During 2008, the City acquired various services from Clark’s Garage for a total \$38,505 respectively. This local business is owned by Council Member Tom Clark.

In 2006, Patrick West, former Downtown Revitalization Director, acquired a loan through the City’s revolving loan program in the amount of \$15,000 for his personal business while in the position of Downtown Revitalization Director. The loan was granted for a seven year term at an interest rate of 3.25%. This loan is currently in default; the last payment made on this loan was November 2007.

NOTE 18 – CONTRACTUAL COMMITMENTS

At December 31, 2008, the City had the following contractual commitments:

Project	Fund	Purchase Commitments	Amount Paid as of 12/31/2008	Amount Remaining on Contracts
Veterans' Park Improvements	General	\$47,026	\$36,548	\$10,478

NOTE 19 – FISCAL EMERGENCY DELCARATION

On October 1, 2009 the City was placed in “Fiscal Emergency” status by the Auditor of State of Ohio because the City attempted, but failed to develop a financial recovery plan to address the City’s deteriorating financial condition. Fiscal emergency is the most severe declaration regarding a city’s financial solvency. This situation prompts the creation of a Financial Planning and Supervision Commission (the Commission) to develop a financial recovery plan to alleviate the City’s financial crisis. The Commission must adopt and submit the financial recovery plan to the Auditor of State within 120 days. Once the plan has been adopted, the City’s discretion is limited in that all financial activities of the City must be in accordance with the plan.

The duties of the Commission include:

- Adopting a financial recovery plan to eliminate the fiscal emergency condition, balancing the budget, avoiding future deficits, and restoring the City’s ability to market long-term obligations.
- Assuming any powers of the City Council it considers necessary, including those related to personnel, curriculum, and legal issues.
- Requiring the City Council to establish monthly levels of expenditures and obligations consistent with the recovery plan.



Mary Taylor, CPA

Auditor of State

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

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

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wellston, Jackson County, Ohio (the City), as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 23, 2009, wherein we noted the City is experiencing financial difficulties and is in fiscal emergency. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. The City has not fully paid the Auditor of State for services provided more than one year prior to our opinion date. AICPA Code of Professional Conduct, ET Section 191 considers this circumstance to impair an auditor's independence. However, Government Auditing Standards permits the Auditor of State to audit and opine on this entity because Ohio Revised Code Sections 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. Ohio Revised Code Section 117.13 also includes provisions to collect unpaid audit fees including negotiating a schedule for payment of the amount due, seeking payment through the Office of Budget and Management or through the County Auditor of the county in which the local public office is located.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

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We consider findings 2007-009 through 2007-012 described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiencies described above are not material weaknesses.

We also noted certain internal control matters that we reported to the City's management in a separate letter dated November 23, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2007-001 through 2007-010.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated November 23, 2009.

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



Mary Taylor, CPA
Auditor of State

November 23, 2009

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2008-001

Noncompliance Citation

Ohio Rev. Code Section 9.38 requires public money to be deposited with the treasurer of the public office or to a designated depository on the business day following the day of receipt.

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

The Utility Department did not deposit utility receipts on the next business day following the day of receipt with the City Treasurer for 24% of the utility batch receipts tested and the City did not have a policy to permit their officials to hold money as indicated above. Deposits were held from 3 to 4 days before being deposited. Failure to timely deposit receipts could lead to or otherwise indicate that errors, irregularities, misappropriation of assets, or fraud are occurring and going undetected for an extended period of time.

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

FINDING NUMBER 2008-002

Noncompliance Citation

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

The following City funds had negative cash fund balances at December 31, 2008:

Fund	Balance
Fire Levy	\$ (69,417)
Street	(99,176)
Cemetery	(324,208)
Railroad Depot	(3,701)
Swimming Pool	(17,499)
Water	(471,874)
Sewer	(475,011)
Garbage	(130,422)

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

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008
(Continued)**

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

FINDING NUMBER 2008-002 (Continued)

Noncompliance Citation – Ohio Rev. Code Section 5705.10(H) (Continued)

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

FINDING NUMBER 2008-003

Noncompliance Citation

Ohio Rev. Code Section 5705.36(A)(1) states that on or about the first day of each fiscal year, the fiscal officers of subdivisions and other taxing unit shall to certify to the County Auditor the total amount from all sources available for expenditures from each fund set up in the tax budget along with any unencumbered balances existing at the end of the preceding year.

The City did not file the certificate with the County Auditor for 2008.

We recommend the City file the certificate with the County Auditor on or about the first day of each fiscal year.

FINDING NUMBER 2008-004

Noncompliance Citation

Ohio Rev. Code Section 5705.38(A) requires that on or about the first day of each fiscal year, an appropriation measure is to be passed. If the taxing authority wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the County Budget Commission based upon the actual year end balances, it may pass a temporary appropriation measure for meeting the ordinary expenses until no later than April 1.

Per review of the City's minutes, the City Council adopted Ordinance No. 4021, Adopting an Appropriation Budget for the City, on January 3, 2008, for 2008. The ordinance indicated the appropriations were attached; however, there was no attachment to the ordinance.

In addition, an appropriation measure was not filed with the County Auditor. As a result, original and final budgeted amounts were presented as zero.

We recommend that the City pass an appropriation measure on or about the first day of each fiscal year, and file the appropriation measure with the County Auditor.

FINDING NUMBER 2008-005

Noncompliance Citation

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

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008
(Continued)**

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

FINDING NUMBER 2008-005 (Continued)

Noncompliance Citation – Ohio Rev. Code Section 5705.39 (Continued)

Per review of the City's minutes, the City Council adopted Ordinance No. 4021, Adopting an Appropriation Budget for the City, on January 3, 2008, for the fiscal year 2008. The ordinance indicated the appropriations were attached; however, there was no attachment to the ordinance. In addition, an appropriation measure was not filed with the County Auditor. As a result, original and final budgeted amounts are presented as zero.

The County Auditor was unable to file a certificate that the total appropriations from each fund did not exceed the total official estimate of resources, because the City failed to certify to the County Auditor the total amount from all sources available for expenditures from each fund. In addition, although, the City Council adopted Ordinance No. 4021, Adopting an Appropriation Budget for the City, on January 3, 2008, for 2008, it was not filed with the County Auditor and could not be effective without the "does not exceed" certificate from the County Auditor.

We recommend the City file all appropriate budget documents with the County Auditor and ensure that appropriations do not exceed estimated resources.

FINDING NUMBER 2008-006

Noncompliance Citation

Ohio Rev. Code Section 5705.40 states, in part, that a subdivision may amend or supplement its appropriation measure provided the entity complies with the same provisions of law as are used in making the original appropriation.

Per review of the City's minutes, appropriation amendments were approved; however, no original appropriations or appropriation amendments were filed with County Auditor.

We recommend the City Council approve all appropriation amendments, record approval in the Council minutes, and file all appropriation amendments with the County Auditor in order to receive confirmation from the County Auditor that appropriations do not exceed estimated resources. The City Auditor should only post legislatively approved amendments.

FINDING NUMBER 2008-007

Noncompliance Citation

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

At December 31, 2008, and for the entirety of 2008, expenditures exceeded appropriations, in all funds, due to the City not having an appropriation measure in effect for the fiscal year. The practice of allowing expenditures to exceed appropriations has resulted in negative fund balances for the City.

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2008-007 (Continued)

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

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

FINDING NUMBER 2008-008

Noncompliance Citation

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

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

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

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

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

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

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008
(Continued)**

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

FINDING NUMBER 2008-008 (Continued)

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

During testing, we noted the invoice date preceded the purchase order/certification date for 70 percent of the transactions tested. Failure to properly certify the availability of funds eliminates a crucial internal control procedure designed to prevent overspending funds and negative cash fund balances.

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

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

FINDING NUMBER 2008-009

Noncompliance Citation and Significant Deficiency

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

City of Wellston Ordinance 51.11 established the Water and Sewer Charges Review Board (the "Board"). Per Ordinance 51.11 Section (A), the Board is comprised of the Director of Public Safety and Service and two members appointed by Council. Per Section (B), the purpose of the Board shall be to hear and decide appeals from any persons affected by any matter. Matter is defined for the use in this section, as any measurement, order, requirement, decision or determination made by the Water and Sewer Department relating to rates or charges for city water or sewer services. Per Section (D), three members shall constitute a quorum for the purpose of conducting business. The concurring vote of two members shall be necessary to revise or modify any matter, and such Board action shall be final. Whenever a quorum is present and an applicant fails to obtain at least two votes in favor of an appeal, then the matter appealed from shall be deemed affirmed, and such action shall be final. All meetings of the Board shall be conducted in such open, public session as may be otherwise required by the Sunshine Law of the State of Ohio. Per Section (F), the Board shall not entertain any appeal filed more than 20 days after the date of the sewer charges billing that gave rise to the matter appealed from, or within such time as may be specifically provided in the ordinances of the city. All decisions of the Board shall be subject to review at the discretion of the City Council.

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2008-009 (Continued)

Noncompliance Citation and Significant Deficiency – Policies and Procedures Manual for the City of Wellston, Ohio Section 4.26(A) (Continued)

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

Credit adjustments to utility accounts in 2008 totaled \$174,222. There was no indication of approval by the Board of Review of any adjustments made during 2008.

Our testing of adjustments indicated a projected error of \$61,153 of adjustments that were not supported by a work order. In addition, our testing indicated a projected error of \$124,997 of adjustments where the work order did not support the reason code in the computer system.

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

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

FINDING NUMBER 2008-010

Noncompliance Citation and Significant Deficiency

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

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

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

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2008-010 (Continued)

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

The City was carrying a total of \$308,870 in delinquent closed accounts at December 31, 2008. There was no indication of any action on the part of the City to collect these accounts. This practice has resulted in a significant loss of revenue for the City.

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

FINDING NUMBER 2008-011

Significant Deficiency

Proceeds from taxes received through the County Auditor should be posted at the gross amount with the deductions relating to Auditor and Treasurer Fees posted as expenditures.

During 2008, the City Auditor posted proceeds from taxes received through the County Auditor at net of the Auditor and Treasurer Fees rather than posting the tax proceeds at gross and posting the Auditor and Treasurer Fees as expenditures.

While this does not impact the fund balance, it provides a more accurate picture of the economic activity which has occurred. The 2008 financial statement has been adjusted to reflect this activity.

We recommend the City Auditor post tax proceeds at gross and post Auditor and Treasurer Fees as expenditures to ensure proper posting of property tax proceeds.

FINDING NUMBER 2008-012

Significant Deficiency

Per the Survey of State Agency Water Loss Reporting Practices: Final Report to the American Water Works Association, dated January 2002, the Ohio Public Utility Commission and Environmental Protection Agency recommended a standard for unaccounted-for water of 15%.

Per a demand versus billed report provided by the City Water Superintendent, the percentage of loss reported for 2008 was 45.8%. A loss of 30.8% would result in an estimated loss of 219,329,750 gallons of water and an estimated loss in annual revenue to the City of \$1,466,847. In addition, on July 29, 2008, the Service Director gave the Utility Clerk permission to make corrections to faulty meter readings for the months of June, July, and August 2008 because the meters had not been read for several months. The resetting of the meters resulted in \$145,693 in water loss.

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008
(Continued)**

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

FINDING NUMBER 2008-012 (Continued)

Significant Deficiency (Continued)

We recommend the City take steps to limit the water loss including but not limited to:

- Replace or repair broken or damaged water meters.
- Place locks on meters for unpaid delinquent accounts.
- Meter readers periodically read meters on vacant accounts to identify unauthorized usage.
- Meter readers report activity at previously vacant residences.
- Read meters every other month at a minimum to establish an accurate reading history.
- Make payment arrangements for accounts requiring meter resets to reduce water losses to the City.

Officials' Response: The City chose not to respond the findings noted above.

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2007-001	Ohio Rev. Code Section 9.38 – Utility Department did not deposit utility receipts on the next business day following the day of receipt.	No	Not Corrected; repeated in the current audit Schedule of Findings as Finding 2008-001.
2007-002	Ohio Rev. Code Section 5705.10 – Negative fund balances in several funds.	No	Not Corrected; repeated in the current audit Schedule of Findings as Finding 2008-002.
2007-003	Ohio Rev. Code Section 5705.36(A)(1) – The City did not file the certificate with the County Auditor.	No	Not Corrected; repeated in the current audit Schedule of Findings as Finding 2008-003.
2007-004	Ohio Rev. Code Section 5705.38(A) – Appropriations were not filed with the County Auditor.	No	Not Corrected; repeated in the current audit Schedule of Findings as Finding 2008-004.
2007-005	Ohio Rev. Code Section 5705.39 - County Auditor was not able to certify that the total appropriations from each fund didn't exceed total amount from all sources available.	No	Not Corrected; repeated in the current audit Schedule of Findings as Finding 2008-005.
2007-006	Ohio Rev. Code Section 5705.40 – No appropriation amendment were filed with the County Auditor.	No	Not Corrected; repeated in the current audit Schedule of Findings as Finding 2008-006.
2007-007	Ohio Rev. Code Section 5705.41(B) – Expenditures exceeded appropriations in all funds.	No	Not Corrected; repeated in the current audit Schedule of Findings as Finding 2008-007.
2007-008	Ohio Rev. Code Section 5705.41(D)(1) – Failure to encumber properly.	No	Not Corrected; repeated in the current audit Schedule of Findings as Finding 2007-008.
2007-009	Noncompliance Citation and Significant Deficiency – Utility Department was not handling account adjustments in accordance with City Ordinance.	No	Not Corrected; repeated in the current audit Schedule of Findings as Finding 2008-009.
2007-010	Noncompliance Citation and Significant Deficiency – Utility Department was not handling delinquent accounts in accordance with City Ordinance.	No	Not Corrected; repeated in the current audit Schedule of Findings as Finding 2008-010.
2007-011	Significant Deficiency – City posted Taxes at net rather than gross that resulted in a material adjustment to the financial statements	No	Not Corrected; repeated in the current audit Schedule of Findings as Finding 2008-011.

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2008
(Continued)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-012	Significant Deficiency – Water Loss was 46.3% resulting is significant loss of revenue.	No	Not Corrected; repeated in the current audit Schedule of Findings as Finding 2008-012.



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
FEBRUARY 18, 2010