

City of Wellston

Jackson County

Regular Audit

January 1, 2005 through December 31, 2005

Fiscal Year Audited Under GAGAS: 2005

CAUDILL & ASSOCIATES, CPA'S
188 JAMES HANNAH DRIVE, P.O. BOX 680
SOUTH SHORE, KY 41175



Mary Taylor, CPA
Auditor of State

Members of City Council
City of Wellston
203 East Broadway Street
Wellston, Ohio 45692

We have reviewed the *Independent Auditors' Report* of the City of Wellston, Jackson County, prepared by Caudill & Associates, CPA's, for the audit period January 1, 2005 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Wellston is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 5, 2007

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City of Wellston, Ohio

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

Independent Auditors' Report

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, Ohio, (the "City"), as of and for the year ended December 31, 2005, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, Ohio, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund, Fire Levy Fund, Street Fund, and Housing Preservation Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the financial statements, the City accumulated negative fund balances in several funds including the Street Fund of (\$232,056), Cemetery Fund of (\$148,497) and the Garbage Fund (\$117,675). As discussed in Note 20 to the financial statements, the City has suffered a declining fund balance in the general fund which raises substantial doubt about its ability to continue as a going concern. Existence of these deficiencies raises substantial doubt about the City's ability to continue as a going concern.

City of Wellston
Jackson County
Independent Auditor's Report
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In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2006, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America.. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Caudill & Associates, CPAs

Caudill & Associates, CPA's
November 15, 2006

City of Wellston, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

The discussion and analysis of the City of Wellston's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2005. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the transmittal letter, the basic financial statements, and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- The City's total net assets increased by 1.3 percent, or \$135,816, from the total net assets at the beginning of the year 2005.
- At the end of the current year, the City's governmental activities reported total net assets of \$5,588,320, an increase of \$437,005 from the prior year. However, unrestricted net assets were (\$45,676).
- The City's business-type activities reported total net assets of \$4,625,025, a decrease of \$301,189, or six percent.
- At the end of the current year, unreserved fund balance for the General Fund was \$245,091, which represents a 24.6 percent decrease from the prior year, and represents 15.2 percent of total General Fund expenditures.
- Capital assets decreased \$303,293. Capital assets from governmental activities increased \$90,719 or 5 percent. Capital assets of business-type activities decreased \$394,012 or 4 percent.

Using this Annual Financial Report

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

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

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 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis

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of accounting similar to the accounting used by most private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Business-Type Activities – Water and sewer services have charges based upon the amount of usage. The City charges fees to recoup the cost of the entire operations of our Water and Sewer Treatment Plants as well as all capital expenses associated with the facilities. Garbage collection services have charges based upon set rates. The City attempts to set fees that cover the costs of providing the service.

Reporting the City of Wellston's Most Significant Funds

Fund Financial Statements

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

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

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

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

Enterprise Funds When the City charges customers for the services it provides, these services are generally reported in enterprise funds. Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

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

The City of Wellston as a Whole

Recall that the Statement of Net Assets looks at the City as a whole. Table 1 provides a summary of the City's net assets for 2005 compared to 2004.

Table 1
Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2005	2004	2005	2004	2005	2004
Assets						
Current and Other Assets	\$5,186,943	\$4,739,704	\$334,853	\$920,060	\$5,521,796	\$5,659,764
Capital Assets, Net	2,069,057	1,978,338	10,353,018	10,747,030	12,422,075	12,725,368
<i>Total Assets</i>	<u>7,256,000</u>	<u>6,718,042</u>	<u>10,687,871</u>	<u>11,667,090</u>	<u>17,943,871</u>	<u>18,385,132</u>
Liabilities						
Current and Other Liabilities	998,944	788,016	525,810	530,091	1,524,754	1,318,107
Noncurrent Liabilities	668,736	778,711	5,537,036	621,785	6,205,772	1,400,496
<i>Total Liabilities</i>	<u>1,667,680</u>	<u>1,566,727</u>	<u>6,062,846</u>	<u>1,151,876</u>	<u>7,730,526</u>	<u>2,718,603</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	1,449,363	1,256,634	4,862,488	4,584,929	6,311,851	5,841,563
Restricted	4,184,633	3,674,904	0	0	4,184,633	3,674,904
Unrestricted (Deficit)	(45,676)	219,777	(237,463)	341,285	(283,139)	561,062
<i>Total Net Assets</i>	<u>\$5,588,320</u>	<u>\$5,151,315</u>	<u>\$4,625,025</u>	<u>\$4,926,214</u>	<u>\$10,213,345</u>	<u>\$10,077,529</u>

Total assets decreased \$441,261. Governmental activities' capital assets increased \$90,719. The increase in capital assets for governmental activities is due to infrastructure additions, offset by depreciation. The decrease in capital assets for business-type activities is due to depreciation in the amount of \$369,544, offset by the sale of the South Wastewater Treatment Plant.

Net assets of the City's governmental activities increased \$437,005.

During 2005, unrestricted net assets in both governmental and business-type activities have become negative, \$45,676 for governmental activities and \$237,463 for business-type activities. These represent a \$265,453 decrease for governmental activities, and a \$578,748 decrease for business-type activities.

City of Wellston, Ohio
Management's Discussion and Analysis
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Table 2 shows the changes in net assets for the fiscal year ended December 31, 2005, and comparisons to 2004.

Table 2
Changes in Net Assets

	Governmental Activities 2005	Business- Type Activities 2005	Total 2005	Governmental Activities 2004	Business- Type Activities 2004	Total 2004
Revenues						
Program Revenues:						
Charges for Services	\$545,095	\$2,390,195	\$2,935,290	\$574,352	\$2,542,249	\$3,116,601
Operating Grants and Contributions	1,183,413	0	1,183,413	390,456	0	390,456
Capital Grants and Contributions	0	0	0	20,000	0	20,000
Total Program Revenues	1,728,508	2,390,195	4,118,703	984,808	2,542,249	3,527,057
General Revenues:						
Property Taxes	613,332	0	613,332	622,886	0	622,886
Income Taxes	765,640	0	765,640	599,282	0	599,282
Gain on Sale of Capital Assets	0	38,737	38,737	0	0	0
Grants and Entitlements	545,347	0	545,347	785,599	0	785,599
Investment Earnings	61,907	0	61,907	105,937	0	105,937
Other	132,738	63,771	196,509	71,118	128,067	199,185
Total General Revenues	2,118,964	102,508	2,221,472	2,184,822	128,067	2,312,889
Total Revenues	3,847,472	2,492,703	6,340,175	3,169,630	2,670,316	5,839,946
Program Expenses						
General Government	740,525	0	740,525	965,988	0	965,988
Security of Persons and Property	1,396,419	0	1,396,419	1,285,163	0	1,285,163
Transportation	371,061	0	371,061	409,388	0	409,388
Leisure Time Activities	107,712	0	107,712	118,986	0	118,986
Public Health Services	179,343	0	179,343	159,443	0	159,443
Community Environment	542,965	0	542,965	480,526	0	480,526
Interest and Fiscal Charges	72,442	0	72,442	27,382	0	27,382
Water	0	1,253,469	1,253,469	0	1,232,536	1,232,536
Sewer	0	1,181,039	1,181,039	0	1,155,595	1,155,595
Garbage	0	359,384	359,384	0	285,872	285,872
Total Program Expenses	3,410,467	2,793,892	6,204,359	3,446,876	2,674,003	6,120,879
Increase (Decrease) in Net Assets	437,005	(301,189)	135,816	(277,246)	(3,687)	(280,933)
Net Assets Beginning of Year	5,151,315	4,926,214	10,077,529	5,428,561	4,929,901	10,358,462
Net Assets End of Year	\$5,588,320	\$4,625,025	\$10,213,345	\$5,151,315	\$4,926,214	\$10,077,529

Governmental Activities

Grants and contributions accounted for 45 percent of total governmental revenues. Tax revenue provided 36 percent of total governmental revenues. Of the 36 percent, 16 percent was generated from property taxes and 20 percent was generated from income 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 81 percent of the City's total governmental revenues.

The City received \$545,095, or 14 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.

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The City's security of persons and property activities accounted for \$1,396,419, or 41 percent, of total expenses. General government activities utilized \$740,525, 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, 2005

	Program Activity Expenses	Net Cost of Program Activity	Program Activity Expenses	Net Cost (Gain) of Program Activity
	2005	2005	2004	2004
General Government	\$740,525	\$584,287	\$965,988	\$810,783
Security of Persons and Property	1,396,419	1,348,430	1,285,163	1,210,359
Transportation	371,061	(31,956)	409,388	54,695
Leisure Time Activities	107,712	23,364	118,986	25,917
Public Health Services	179,343	115,484	159,443	119,738
Community Environment	542,965	(430,092)	480,526	213,194
Interest and Fiscal Charges	72,442	72,442	27,382	27,382
Totals	\$3,410,467	\$1,681,959	\$3,446,876	\$2,462,068

Business-Type Activities

The City's business-type activities are for water, sewer, and garbage services. During 2005, program expenses exceeded revenues by \$301,189.

The minimum water rate is \$5.50 per each thousand gallons of water. Water rates increase 3 percent annually, by ordinance. Sewer fees are calculated on the amount of water used. The minimum sewer rate is \$12.00 per month, which has not changed in ten years. Garbage fees are assessed at a flat rate of a \$11.00 per month, up from \$9.00 per month two years ago.

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.

City of Wellston, Ohio
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General Fund

The General Fund is the primary operating fund of the City. At the end of 2005, fund balance was \$262,893. Fund balance represents 17 percent of total General Fund expenditures.

The fund balance of the City's General Fund decreased by \$62,305 during the current year. In 2004, the General Fund's fund balance decreased by \$194,646. There was no significant change in revenue, but there was a decrease in expenditures of 25 percent. The decrease in expenditures was due to the City implementing better budgeting controls, resulting in a 37 percent decrease in General Government expenditures and a 13 percent decrease in Security of Persons and Property expenditures.

Other Major Governmental Funds

The fund balance of the Fire Levy Special Revenue Fund at December 31, 2005 is (\$9,567), a decrease of \$93,025. This decrease is due to debt payments on new fire equipment. The fund balance of the Street Special Revenue Fund at December 31, 2005 is (\$232,055), a decrease of \$239,765. As in the previous year, expenditures from the fund are almost double revenues, depleting fund balances.

The fund balance of the Housing Preservation Special Revenue Fund at December 31, 2005 is \$120,851, an increase of \$99,834. The balance represents 40 percent of total fund expenditures.

The fund balance of the Permanent Investment Fund at December 31, 2005 is \$2,433,835, the same as the prior year. The balance represents the proceeds from the 1967 sale of the City's electric utility, that may only be spent for capital improvements.

Enterprise Funds

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

The City's major enterprise funds are the Water, Sewer, and Garbage Funds. The Water Fund's net assets increased \$391, the Sewer Fund's net assets decreased \$231,194, and the Garbage Fund's net assets decreased \$70,386.

General Fund Budgetary Highlights

The City made few revisions to the original appropriations approved by City Counsel. Overall, these changes resulted in an increase from the original appropriations of \$46,275. The City did not change General Fund budgeted revenue original to final.

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

Capital Assets

At the end of 2005, the City had \$12,422,075 invested in capital assets, net of accumulated depreciation. Table 4 shows fiscal year 2005 balances compared to 2004.

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Land	\$103,550	\$103,550	\$0	\$0	\$103,550	\$103,550
Buildings	610,376	632,294	7,002,002	7,293,676	7,612,378	7,925,970
Equipment	55,477	62,711	124,410	139,786	179,887	202,497
Infrastructure	381,654	190,390	2,988,170	2,990,159	3,369,824	3,180,549
Vehicles	918,000	989,393	202,536	249,279	1,120,536	1,238,672
Construction in Progress	0	0	35,900	74,130	35,900	74,130
Totals	\$2,069,057	\$1,978,338	\$10,353,018	\$10,747,030	\$12,422,075	\$12,725,368

The total decrease in the City's capital assets, net of accumulated depreciation, for the current year was \$303,293 or 2 percent. The decrease is due to the sale of the South Wastewater Treatment Plant and depreciation, offset by a \$191,264 increase in governmental infrastructure.

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

Debt

As of December 31, 2005 and December 31, 2004, the City had total long-term debt of \$6,110,224 and \$6,883,805, respectively, as follows:

Table 5
Outstanding Debt

	Governmental Activities		Business-Type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Revenue Bonds	\$0	\$0	\$2,007,714	\$2,109,143	\$2,007,714	\$2,109,143
General Obligation Bonds	0	0	688,000	700,000	688,000	700,000
Long-Term Loans	619,694	721,704	230,582	286,505	850,276	1,008,209
OWDA Loans	0	0	2,171,321	2,362,840	2,171,321	2,362,840
OPWC Loans	0	0	392,913	703,613	392,913	703,613
Totals	\$619,694	\$721,704	\$5,490,530	\$6,162,101	\$6,110,224	\$6,883,805

The City's overall legal debt margin was \$6,171,806. For additional information on debt, see Note 16 to the basic financial statements.

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Economic Factors

- The City's income tax rate of .75 percent with a full credit for tax paid to other municipalities has not increased since the inception in 2001, but income tax revenues are remaining constant indicating a stagnating economy.

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, 2005

	Governmental Activities	Business - Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 3,438,875	\$ -	\$ 3,438,875
Accounts Receivable	-	242,637	242,637
Intergovernmental Receivable	653,061	-	653,061
Permissive Motor Vehicle License Tax Receivable	25,589	-	25,589
Internal Balances	132,924	(132,924)	-
Income Tax Receivable	217,643	-	217,643
Property and Other Taxes Receivable	544,416	-	544,416
Loans Receivable	151,449	-	151,449
Customer Deposits	-	204,499	204,499
Prepaid Items	22,986	20,641	43,627
Non-Depreciable Capital Assets	103,550	35,900	139,450
Depreciable Capital Assets, Net	1,965,507	10,317,118	12,282,625
<i>Total Assets</i>	<u>7,256,000</u>	<u>10,687,871</u>	<u>17,943,871</u>
Liabilities			
Accounts Payable	87,128	79,701	166,829
Accrued Wages Payable	46,560	36,656	83,216
Intergovernmental Payable	174,870	130,918	305,788
Accrued Interest Payable	7,629	72,880	80,509
Contracts Payable	211,443	-	211,443
Matured Compensated Absences Payable	-	1,156	1,156
Deferred Revenue	471,314	-	471,314
Customer Deposits Payable	-	204,499	204,499
Long-Term Liabilities:			
Due Within One Year	129,410	428,232	557,642
Due In More Than One Year	539,326	5,108,804	5,648,130
<i>Total Liabilities</i>	<u>1,667,680</u>	<u>6,062,846</u>	<u>7,730,526</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	1,449,363	4,862,488	6,311,851
Restricted for:			
Street	327,771	-	327,771
Police	31,519	-	31,519
Community Development	899,370	-	899,370
Fire Protection	3,868	-	3,868
Other Purposes	159,363	-	159,363
Capital Projects	2,441,069	-	2,441,069
Cemetery Endowment:			
Expendable Portion	117,326	-	117,326
Nonexpendable Portion	204,347	-	204,347
Unrestricted (Deficit)	(45,676)	(237,463)	(283,139)
<i>Total Net Assets</i>	<u>\$ 5,588,320</u>	<u>\$ 4,625,025</u>	<u>\$ 10,213,345</u>

See accompanying notes to the basic financial statements

City of Wellston, Ohio
Statement of Activities
For the Year Ended December 31, 2005

	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest
Governmental Activities			
General Government	\$ 740,525	\$ 156,238	\$ -
Security of Persons and Property	1,396,419	17,592	30,397
Transportation	371,061	51,749	351,268
Leisure Time Activities	107,712	63,798	20,550
Public Health Services	179,343	39,925	23,934
Community Environment	542,965	215,793	757,264
Interest and Fiscal Charges	72,442	-	-
<i>Total Governmental Activities</i>	3,410,467	545,095	1,183,413
Business-Type Activities			
Water	1,253,469	1,224,826	-
Sewer	1,181,039	887,159	-
Garbage	359,384	278,210	-
<i>Total Business-Type Activities</i>	2,793,892	2,390,195	-
<i>Total</i>	\$6,204,359	\$2,935,290	\$1,183,413

General Revenues

Property and Other Taxes Levied for:

General Purposes

Cemetery

Fire Protection

Streets

Income Taxes Levied for General Purposes

Gain on Sale of Capital Assets

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and
Change in Net Assets

Governmental Activities	Business - Type Activities	Total
\$ (584,287)	\$ -	\$ (584,287)
(1,348,430)	-	(1,348,430)
31,956	-	31,956
(23,364)	-	(23,364)
(115,484)	-	(115,484)
430,092	-	430,092
(72,442)	-	(72,442)
<u>(1,681,959)</u>	<u>-</u>	<u>(1,681,959)</u>
-	(28,643)	(28,643)
-	(293,880)	(293,880)
-	(81,174)	(81,174)
<u>-</u>	<u>(403,697)</u>	<u>(403,697)</u>
<u>(1,681,959)</u>	<u>(403,697)</u>	<u>(2,085,656)</u>
198,227	-	198,227
50,768	-	50,768
243,148	-	243,148
121,189	-	121,189
765,640	-	765,640
0	38,737	38,737
545,347	-	545,347
61,907	-	61,907
132,738	63,771	196,509
<u>2,118,964</u>	<u>102,508</u>	<u>2,221,472</u>
437,005	(301,189)	135,816
<u>5,151,315</u>	<u>4,926,214</u>	<u>10,077,529</u>
<u>\$ 5,588,320</u>	<u>\$ 4,625,025</u>	<u>\$ 10,213,345</u>

City of Wellston, Ohio
Balance Sheet
Governmental Funds
December 31, 2005

	General	Fire Levy	Street	Housing Preservation	Permanent Investment	Other Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$ -	\$ 44,429	\$ -	\$ 73,009	\$ 2,433,835	\$ 887,602
Receivables:						
Interfund	323,625	-	-	-	-	137,760
Intergovernmental	42,510	-	107,818	168,989	-	333,744
Permissive Motor Vehicle License Tax	-	-	25,589	-	-	-
Income Taxes	217,643	-	-	-	-	-
Property and Other Taxes	208,024	191,017	-	-	-	145,375
Loans	-	-	-	-	-	151,449
Prepaid Items	7,421	2,546	1,315	-	-	11,704
<i>Total Assets</i>	<u>\$ 799,223</u>	<u>\$ 237,992</u>	<u>\$ 134,722</u>	<u>\$ 241,998</u>	<u>\$ 2,433,835</u>	<u>\$ 1,667,634</u>
Liabilities and Fund Balances						
Liabilities						
Accounts Payable	\$ 16,543	\$ 28,454	\$ 10,888	\$ -	\$ -	\$ 31,243
Accrued Wages Payable	32,107	5,351	5,471	-	-	3,631
Intergovernmental Payable	113,556	22,737	22,504	-	-	16,073
Contracts Payable	-	-	211,443	-	-	-
Deferred Revenue	236,364	191,017	85,008	121,147	-	150,865
Interfund Payable	137,760	-	31,463	-	-	159,238
<i>Total Liabilities</i>	<u>536,330</u>	<u>247,559</u>	<u>366,777</u>	<u>121,147</u>	<u>-</u>	<u>361,050</u>
Fund Balances						
Reserved for Encumbrances	17,802	4,655	12	72,005	-	139,723
Reserved for Endowments	-	-	-	-	-	204,347
Reserved for Loans Receivable	-	-	-	-	-	98,495
Unreserved, Undesignated, Reported in:						
General Fund	245,091	-	-	-	-	-
Special Revenue Funds	-	(14,222)	(232,067)	48,846	-	739,459
Capital Projects Funds	-	-	-	-	2,433,835	7,234
Permanent Funds	-	-	-	-	-	117,326
<i>Total Fund Balance</i>	<u>262,893</u>	<u>(9,567)</u>	<u>(232,055)</u>	<u>120,851</u>	<u>2,433,835</u>	<u>1,306,584</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 799,223</u>	<u>\$ 237,992</u>	<u>\$ 134,722</u>	<u>\$ 241,998</u>	<u>\$ 2,433,835</u>	<u>\$ 1,667,634</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, 2005*

Total Governmental Funds <hr/> \$ 3,438,875 461,385 653,061 25,589 217,643 544,416 151,449 22,986 <hr/> \$ 5,515,404 <hr/> \$ 87,128 46,560 174,870 211,443 784,401 328,461 <hr/> 1,632,863 234,197 204,347 98,495 245,091 542,016 2,441,069 117,326 <hr/> 3,882,541 <hr/> \$ 5,515,404 <hr/>	Total Governmental Fund Balances \$3,882,541 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i> Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. 2,069,057 Other long-term assets are not available to pay current period expenditures and therefore are deferred in the funds: Property Taxes 73,102 Permissive Motor Vehicle License Taxes 18,533 Intergovernmental Revenues <u>221,452</u> Total 313,087 Some liabilities are not due and payable in the current period and therefore are not reported in the funds: Compensated Absences Payable (49,042) Accrued Interest Payable (7,629) Long-Term Loans Payable <u>(619,694)</u> Total <u>(676,365)</u> Net Assets of Governmental Activities <u>\$5,588,320</u>
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City of Wellston, Ohio
*Statement of Revenues, Expenditures,
and Changes in Fund Balances*
Governmental Funds
For the Year Ended December 31, 2005

	General	Fire Levy	Street	Housing Preservation	Permanent Investment	Other Governmental Funds
Revenues						
Property and Other Taxes	\$ 196,427	\$ 243,999	\$ -	\$ -	\$ -	\$ 172,878
Municipal Income Taxes	765,640	-	-	-	-	-
Permissive Motor Vehicle License Tax	-	-	52,909	-	-	-
Intergovernmental	330,398	24,673	219,928	400,853	-	579,058
Charges for Services	10,606	15,565	-	-	-	228,114
Fines and Forfeitures	89,219	-	-	-	-	1,365
Licenses and Permits	12,385	-	-	-	-	-
Investment Earnings	61,907	-	-	-	-	29,034
Rent	44,750	-	-	-	-	91,402
Contributions and Donations	-	-	-	-	-	22,274
Other	33,528	30,600	5,922	-	-	62,688
<i>Total Revenues</i>	<u>1,544,860</u>	<u>314,837</u>	<u>278,759</u>	<u>400,853</u>	<u>-</u>	<u>1,186,813</u>
Expenditures						
Current:						
General Government	530,620	-	-	-	-	207,326
Security of Persons and Property	1,027,384	276,137	-	-	-	32,324
Transportation	-	-	499,645	-	-	41,445
Leisure Time Activities	-	-	-	-	-	107,362
Public Health Services	-	-	-	-	-	191,784
Community Environment	-	-	-	301,019	-	221,663
Debt Service:						
Principal Retirement	19,850	62,853	15,973	-	-	3,334
Interest and Fiscal Charges	1,311	68,872	2,906	-	-	-
<i>Total Expenditures</i>	<u>1,579,165</u>	<u>407,862</u>	<u>518,524</u>	<u>301,019</u>	<u>-</u>	<u>805,238</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(34,305)</u>	<u>(93,025)</u>	<u>(239,765)</u>	<u>99,834</u>	<u>-</u>	<u>381,575</u>
Other Financing Sources (Uses)						
Transfers In	-	-	-	-	-	28,000
Transfers Out	(28,000)	-	-	-	-	-
<i>Total Other Financing Sources (Uses)</i>	<u>(28,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,000</u>
<i>Net Change in Fund Balances</i>	<u>(62,305)</u>	<u>(93,025)</u>	<u>(239,765)</u>	<u>99,834</u>	<u>-</u>	<u>409,575</u>
<i>Fund Balances Beginning of Year</i>	<u>325,198</u>	<u>83,458</u>	<u>7,710</u>	<u>21,017</u>	<u>2,433,835</u>	<u>897,009</u>
<i>Fund Balances End of Year</i>	<u>\$ 262,893</u>	<u>\$ (9,567)</u>	<u>\$(232,055)</u>	<u>\$ 120,851</u>	<u>\$ 2,433,835</u>	<u>\$ 1,306,584</u>

See accompanying notes to the general purpose financial statements

City of Wellston, Ohio
*Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2005*

	Net Change in Fund Balances - Total Governmental Funds	\$ 114,314																																																																					
	<i>Amounts reported for governmental activities in the statement of activities are different because:</i>																																																																						
<table border="0" style="width: 100%;"> <tr><td style="width: 5%;">\$</td><td style="width: 15%;">613,304</td><td style="width: 80%;"></td></tr> <tr><td></td><td>765,640</td><td></td></tr> <tr><td></td><td>52,909</td><td></td></tr> <tr><td></td><td>1,554,910</td><td></td></tr> <tr><td></td><td>254,285</td><td></td></tr> <tr><td></td><td>90,584</td><td></td></tr> <tr><td></td><td>12,385</td><td></td></tr> <tr><td></td><td>90,941</td><td></td></tr> <tr><td></td><td>136,152</td><td></td></tr> <tr><td></td><td>22,274</td><td></td></tr> <tr><td></td><td>132,738</td><td></td></tr> <tr><td></td><td><hr/></td><td></td></tr> <tr><td></td><td>3,726,122</td><td></td></tr> </table>	\$	613,304			765,640			52,909			1,554,910			254,285			90,584			12,385			90,941			136,152			22,274			132,738			<hr/>			3,726,122		<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:</p> <table border="0" style="width: 100%;"> <tr><td style="width: 5%;">Capital Asset Additions</td><td style="width: 15%; text-align: right;">211,443</td><td style="width: 80%;"></td></tr> <tr><td>Depreciation Expense</td><td style="text-align: right;"><u>(120,724)</u></td><td style="text-align: right;">90,719</td></tr> </table> <p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:</p> <table border="0" style="width: 100%;"> <tr><td style="width: 5%;">Grants</td><td style="width: 15%; text-align: right;">122,542</td><td style="width: 80%;"></td></tr> <tr><td>Permissive Motor Vehicle License Tax</td><td style="text-align: right;">(1,220)</td><td></td></tr> <tr><td>Delinquent Taxes</td><td style="text-align: right;"><u>28</u></td><td style="text-align: right;">121,350</td></tr> </table> <p>Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p> <table border="0" style="width: 100%;"> <tr><td style="width: 5%;"></td><td style="width: 15%;"></td><td style="width: 80%; text-align: right;">102,010</td></tr> </table> <p>In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest is expended when due.</p> <table border="0" style="width: 100%;"> <tr><td style="width: 5%;"></td><td style="width: 15%;"></td><td style="width: 80%; text-align: right;">647</td></tr> </table> <p>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:</p> <table border="0" style="width: 100%;"> <tr><td style="width: 5%;">Compensated Absences Payable</td><td style="width: 15%;"></td><td style="width: 80%; text-align: right;"><u>7,965</u></td></tr> </table>	Capital Asset Additions	211,443		Depreciation Expense	<u>(120,724)</u>	90,719	Grants	122,542		Permissive Motor Vehicle License Tax	(1,220)		Delinquent Taxes	<u>28</u>	121,350			102,010			647	Compensated Absences Payable		<u>7,965</u>	<table border="0" style="width: 100%;"> <tr><td style="width: 5%;"></td><td style="width: 15%;"></td><td style="width: 80%;"></td></tr> <tr><td></td><td></td><td><u>\$437,005</u></td></tr> </table>						<u>\$437,005</u>
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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, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property and Other Taxes	\$ 234,363	\$ 234,363	\$ 196,427	\$ (37,936)
Municipal Income Taxes	877,672	877,672	751,832	(125,840)
Intergovernmental	385,699	385,699	330,398	(55,301)
Charges for Services	12,381	12,381	10,606	(1,775)
Fines and Forfeitures	104,152	104,152	89,219	(14,933)
Licenses and Permits	14,458	14,458	12,385	(2,073)
Investment Earnings	34,336	34,336	62,960	28,624
Rent	52,240	52,240	44,750	(7,490)
Other	39,140	39,140	33,528	(5,612)
<i>Total Revenues</i>	<u>1,754,441</u>	<u>1,754,441</u>	<u>1,532,105</u>	<u>(222,336)</u>
Expenditures				
Current:				
General Government	515,733	579,980	519,654	60,326
Security of Persons and Property	1,040,535	1,001,402	1,003,870	(2,468)
Debt Service:				
Principal Retirement	-	19,850	19,850	-
Interest and Fiscal Charges	-	1,311	1,311	-
<i>Total Expenditures</i>	<u>1,556,268</u>	<u>1,602,543</u>	<u>1,544,685</u>	<u>57,858</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	198,173	151,898	(12,580)	(164,478)
Other Financing Uses				
Transfers Out	(28,000)	(28,000)	(28,000)	-
<i>Net Change in Fund Balance</i>	170,173	123,898	(40,580)	(164,478)
<i>Fund Balance Beginning of Year</i>	<u>208,643</u>	<u>208,643</u>	<u>208,643</u>	<u>-</u>
<i>Fund Balance End of Year</i>	<u><u>\$ 378,816</u></u>	<u><u>\$ 332,541</u></u>	<u><u>\$ 168,063</u></u>	<u><u>\$ (164,478)</u></u>

See accompanying notes to the basic financial statements

City of Wellston, Ohio
*Statement of Receipts, Disbursements and Changes
in Fund Balance - Budget and Actual (Budget Basis)*
Fire Levy
For the Year Ended December 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Receipts				
Property and other Local Taxes	\$ 193,378	\$ 193,378	\$ 243,999	\$ 50,621
Charges for Services	12,336	12,336	15,565	3,229
Intergovernmental	19,554	19,554	24,673	5,119
Other	24,252	24,252	30,600	6,348
<i>Total Receipts</i>	<u>249,520</u>	<u>249,520</u>	<u>314,837</u>	<u>65,317</u>
Expenditures				
Current:				
Security of Persons and Property	286,961	286,961	253,076	33,885
Interest and Fiscal Charges	19,330	19,330	68,872	(49,542)
Debt Service:				
Principal Retirements	70,395	70,395	62,853	7,542
<i>Total Disbursements</i>	<u>376,686</u>	<u>376,686</u>	<u>384,801</u>	<u>(8,115)</u>
<i>Excess of Receipts Under Disbursements</i>	(127,166)	(127,166)	(69,964)	57,202
<i>Fund Balance Beginning of Year</i>	<u>109,738</u>	<u>109,738</u>	<u>109,738</u>	<u>-</u>
<i>Fund Balance (Deficit) End of Year</i>	<u>\$ (17,428)</u>	<u>\$ (17,428)</u>	<u>\$ 39,774</u>	<u>\$ 57,202</u>

See accompanying notes to the basic financial statements

City of Wellston, Ohio
*Statement of Receipts, Disbursements and Changes
in Fund Balance - Budget and Actual (Budget Basis)*
Street Fund
For the Year Ended December 31, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Permissive Motor Vehicle License Taxes	\$ 22,413	\$ 22,413	\$ 52,865	\$ 30,452
Intergovernmental	87,550	87,550	206,505	118,955
Other	2,510	2,510	5,922	3,412
<i>Total Receipts</i>	<u>112,473</u>	<u>112,473</u>	<u>265,292</u>	<u>152,819</u>
Disbursements				
Current:				
Transportation	326,910	284,561	276,086	8,475
Interest and Fiscal Charges	2,906	2,906	2,906	
Debt Service:				
Principal Retirements	16,094	16,094	15,973	121
<i>Total Disbursements</i>	<u>345,910</u>	<u>303,561</u>	<u>294,965</u>	<u>8,596</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	(233,437)	(191,088)	(29,673)	161,415
<i>Fund Balance Beginning of Year</i>	<u>(1,802)</u>	<u>(1,802)</u>	<u>(1,802)</u>	<u>-</u>
<i>Fund Balance (Deficit) End of Year</i>	<u>\$ (235,239)</u>	<u>\$ (192,890)</u>	<u>\$ (31,475)</u>	<u>\$ 161,415</u>

See accompanying notes to the basic financial statements

City of Wellston, Ohio
*Statement of Receipts, Disbursements and Changes
in Fund Balance - Budget and Actual (Budget Basis)
Housing Preservation
For the Year Ended December 31, 2005*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Intergovernmental	\$ 522,000	\$ 522,000	\$ 353,011	\$ (168,989)
Expenditures				
Current:				
Community and Economic Development	522,000	522,000	373,024	148,976
<i>Excess of Receipts Under Disbursements</i>	-	-	(20,013)	(20,013)
<i>Fund Balance Beginning of Year</i>	21,017	21,017	21,017	-
 <i>Fund Balance (Deficit) End of Year</i>	 \$ 21,017	 \$ 21,017	 \$ 1,004	 \$ (20,013)

See accompanying notes to the basic financial statements

City of Wellston, Ohio
Statement of Fund Net Assets
Enterprise Funds
December 31, 2005

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>
Assets			
Current:			
Accounts Receivable	\$ 136,363	\$ 104,695	\$ 1,579
Prepaid Items	9,781	10,404	456
Restricted Assets:			
Customer Deposits	<u>204,499</u>	<u>-</u>	<u>-</u>
<i>Total Current Assets</i>	<u>350,643</u>	<u>115,099</u>	<u>2,035</u>
Noncurrent:			
Non-Depreciable Capital Assets	35,900	-	-
Depreciable Capital Assets, Net	<u>2,298,622</u>	<u>7,947,796</u>	<u>70,700</u>
<i>Total Noncurrent Assets</i>	<u>2,334,522</u>	<u>7,947,796</u>	<u>70,700</u>
<i>Total Assets</i>	<u>2,685,165</u>	<u>8,062,895</u>	<u>72,735</u>
Liabilities			
Current:			
Accounts Payable	41,782	20,814	17,105
Accrued Wages Payable	20,260	10,399	5,997
Intergovernmental Payable	69,813	41,586	19,519
Accrued Interest Payable	10,200	62,231	449
Matured Compensated Absences Payable	-	1,156	-
Interfund Payable	44,218	33,865	54,841
Customer Deposits Payable	204,499	-	-
OPWC Loans Payable	36,491	3,032	-
OWDA Loans Payable	74,670	120,922	-
Notes Payable	12,219	29,958	14,734
Compensated Absences Payable	17,731	241	2,806
General Obligation Bonds Payable	-	13,000	-
Revenue Bonds Payable	<u>71,428</u>	<u>31,000</u>	<u>-</u>
<i>Total Current Liabilities</i>	<u>603,311</u>	<u>368,204</u>	<u>115,451</u>
Long-Term:			
OPWC Loans Payable	312,458	40,932	-
OWDA Loans Payable	653,703	1,322,026	-
Notes Payable	74,022	31,513	68,136
Revenue Bonds Payable	214,286	1,691,000	-
General Obligation Bonds Payable	-	675,000	-
Compensated Absences Payable	<u>18,905</u>	<u>-</u>	<u>6,823</u>
<i>Total Long-Term Liabilities</i>	<u>1,273,374</u>	<u>3,760,471</u>	<u>74,959</u>
<i>Total Liabilities</i>	<u>1,876,685</u>	<u>4,128,675</u>	<u>190,410</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	885,245	3,989,413	(12,170)
Unrestricted (Deficit)	<u>(76,765)</u>	<u>(55,193)</u>	<u>(105,505)</u>
<i>Total Net Assets</i>	<u>\$ 808,480</u>	<u>\$ 3,934,220</u>	<u>\$ (117,675)</u>

See accompanying notes to the basic financial statements

Total
Enterprise
Funds

\$ 242,637
20,641

204,499

467,777

35,900
10,317,118

10,353,018

10,820,795

79,701
36,656
130,918
72,880
1,156
132,924
204,499
39,523
195,592
56,911
20,778
13,000
102,428

1,086,966

353,390
1,975,729
173,671
1,905,286
675,000
25,728

5,108,804

6,195,770

4,862,488
(237,463)

\$ 4,625,025

City of Wellston, Ohio
Statement of Revenues, Expenses and Changes in Fund Net Assets
Enterprise Funds
For the Year Ended December 31, 2005

	Water	Sewer	Garbage	Total Enterprise Funds
Operating Revenues				
Charges for Services	\$ 1,224,826	\$ 887,159	\$ 278,210	\$ 2,390,195
Other	29,034	23,949	10,788	63,771
<i>Total Operating Revenues</i>	<u>1,253,860</u>	<u>911,108</u>	<u>288,998</u>	<u>2,453,966</u>
Operating Expenses				
Personal Services	469,861	238,591	156,291	864,743
Fringe Benefits	239,029	161,087	68,188	468,304
Contractual Services	185,944	152,090	80,864	418,898
Materials and Supplies	255,386	176,155	21,845	453,386
Depreciation	70,962	278,382	20,200	369,544
Other	-	15,398	9,111	24,509
<i>Total Operating Expenses</i>	<u>1,221,182</u>	<u>1,021,703</u>	<u>356,499</u>	<u>2,599,384</u>
<i>Operating Income (Loss)</i>	<u>32,678</u>	<u>(110,595)</u>	<u>(67,501)</u>	<u>(145,418)</u>
Non-Operating Revenues (Expenses)				
Gain on Disposal of Capital Assets	-	38,737	-	38,737
Interest and Fiscal Charges	(32,287)	(159,336)	(2,885)	(194,508)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(32,287)</u>	<u>(120,599)</u>	<u>(2,885)</u>	<u>(155,771)</u>
<i>Change in Net Assets</i>	391	(231,194)	(70,386)	(301,189)
<i>Net Assets (Deficit) Beginning of Year</i>	<u>808,089</u>	<u>4,165,414</u>	<u>(47,289)</u>	<u>4,926,214</u>
<i>Net Assets (Deficit) End of Year</i>	<u>\$ 808,480</u>	<u>\$ 3,934,220</u>	<u>\$ (117,675)</u>	<u>\$ 4,625,025</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, 2005

	Water	Sewer	Garbage	Total Enterprise Funds
Increase (Decrease) in Cash and Cash Equivalents				
Cash Flows from Operating Activities				
Cash Received from Customers	\$ 1,271,881	\$ 907,611	\$ 278,784	\$ 2,458,276
Other Cash Receipts	29,034	23,949	10,788	63,771
Cash Payments for Employee Services and Benefits	(698,382)	(410,688)	(216,273)	(1,325,343)
Cash Payments for Goods and Services	(430,592)	(332,009)	(96,374)	(858,975)
Utility Deposits Received	28,900	-	-	28,900
Utility Deposits Returned	(25,236)	-	-	(25,236)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>175,605</u>	<u>188,863</u>	<u>(23,075)</u>	<u>341,393</u>
Cash Flows from Noncapital Financing Activities				
Advances In	44,218	33,865	54,841	132,924
Advances Out	-	-	(13,215)	(13,215)
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>44,218</u>	<u>33,865</u>	<u>41,626</u>	<u>119,709</u>
Cash Flows from Capital and Related Financing Activities				
Proceeds from the Sale of Capital Assets	-	300,000	-	300,000
Payments for Capital Acquisitions	(5,948)	(49,470)	-	(55,418)
Principal Paid on Revenue Bonds	(71,429)	(30,000)	-	(101,429)
Principal Paid on General Obligation Bonds	-	(12,000)	-	(12,000)
Principal Paid on Notes	(11,861)	(28,480)	(15,582)	(55,923)
Principal Paid on OWDA Loans	(73,206)	(118,313)	-	(191,519)
Principal Paid on OPWC Loans	(36,491)	(274,209)	-	(310,700)
Interest Paid on Revenue Bonds	(14,643)	(82,733)	-	(97,376)
Interest Paid on General Obligation Bonds	-	(35,000)	-	(35,000)
Interest Paid on Notes	(2,855)	(2,602)	(2,969)	(8,426)
Interest Paid on OWDA Loans	(16,032)	(31,699)	-	(47,731)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(232,465)</u>	<u>(364,506)</u>	<u>(18,551)</u>	<u>(615,522)</u>
<i>Net Decrease in Cash and Cash Equivalents</i>	(12,642)	(141,778)	-	(154,420)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>217,141</u>	<u>141,778</u>	<u>-</u>	<u>358,919</u>
 <i>Cash and Cash Equivalents End of Year</i>	 <u>\$ 204,499</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 204,499</u>
 Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities				
Operating Income (Loss)	\$ 32,678	\$ (110,595)	\$ (67,501)	\$ (145,418)
Adjustments:				
Depreciation	70,962	278,382	20,200	369,544
Changes in Assets and Liabilities:				
Decrease in Accounts Receivable	47,055	29,385	574	77,014
(Increase) Decrease in Prepaid Items	6,280	(8,668)	3,119	731
Increase in Accounts Payable	3,109	11,505	11,937	26,551
Increase (Decrease) in Accrued Wages Payable	114	(1,559)	587	(858)
Increase (Decrease) in Compensated Absences Payable	(3,463)	(2,333)	3,618	(2,178)
Increase in Customer Deposits Payable	3,664	-	-	3,664
Increase (Decrease) in Intergovernmental Payable	15,206	(7,254)	4,391	12,343
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>\$ 175,605</u>	<u>\$ 188,863</u>	<u>\$ (23,075)</u>	<u>\$ 341,393</u>

See accompanying notes to the basic financial statements

City of Wellston, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2005

Assets

Equity in Pooled Cash and Cash Equivalents	<u>\$13,917</u>
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Liabilities

Due to Others	<u>\$13,917</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, 2005

NOTE 1 - REPORTING ENTITY

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

The City of Wellston is a home rule municipal corporation established under the laws of the State of Ohio. The legislative authority is vested in a seven member council, all of whom are elected at-large for staggered four year terms. The presiding officer is the president, who is elected by the Council for a one year term. Council enacts ordinances and resolutions relating to tax levies, city services, and licensing; appropriates and borrows money; and accepts bids for materials, services, and other municipal purposes. The Mayor, 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. Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes. No potential component units met these criteria.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Fire Levy Fund – The Fire Levy Special Revenue Fund accounts for the proceeds of a levy for fire protection.

Street Fund – The Street Special Revenue Fund is used to account for that portion of the State gasoline tax and motor vehicle registration fees designated for maintenance of streets within the City, as well as permissive motor vehicle license tax levied by the City.

Housing Preservation Fund – The Housing Preservation Special Revenue Fund is used to account for a State grant received by the City to be used to provide grants to low-income residents for home improvements.

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 Ohio Revised Code, these proceeds may only be used for capital expenditures.

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

Proprietary funds

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

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

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

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

Fiduciary funds

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2005, but which were levied to finance year 2006 operations have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

E. Budgetary Process

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolutions, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the City Council may appropriate. The appropriations resolution is the City Council's authorization to spend resources and sets annual limits on the expenditures 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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2005, investments were limited to certificates of deposit, which are reported at cost, and the State Treasury Asset Reserve of Ohio (STAR Ohio).

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2005.

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 required to be credited to a specific fund. During 2005, interest was distributed to the General Fund and to the Cemetery, CDBG Revolving Loan and UDAG Revolving Loan Special Revenue Funds. Interest revenue credited to the General Fund during 2005 amounted to \$61,907, which includes \$57,285 assigned from other City funds.

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

G. Receivables and Payables

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

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2005, are recorded as prepaid items using the consumption method recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

I. Interfund Balances

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Building	40 years	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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

than one year of service. The City records a liability for accumulated unused sick leave for employees after ten years of service.

On the governmental fund financial statements, sick leave benefits are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee retirements. These amounts are reported as “matured compensated absences payable” in the fund from which the employees who will receive the payment are paid.

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 bonds and long-term notes as a liability in the governmental fund financial statements when due.

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

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

N. Fund Balance Reserves

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

O. Net Assets

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$4,186,634 of restricted net assets, of which \$300,636 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 outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from outside contributions of resources restricted to capital acquisition or construction.

Q. Interfund Transactions

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

R. Estimates

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

S. Operating Revenues and Expenses

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

T. Extraordinary and Special Items

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES

For 2005, the City has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries."

GASB Statement No. 40 establishes new disclosure requirements for risks associated with deposits and investments.

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

The implementation of GASB Statement No. 40 and 42 did not affect the presentation of the financial statements of the City.

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Fund Deficits

The following funds had deficit fund balances/net assets as of December 31, 2005:

<u>Fund Type/Fund</u>	
<u>Special Revenue:</u>	
Fire Levy	\$9,567
Street	232,055
Cemetery	148,497
Recreation	2,874
UDAG Revolving Loan	3,851
DARE	245
Kuppenheimer	967
Swimming Pool	26,362
 <u>Enterprise:</u>	
Garbage	117,675

B. Legal Compliance

The Street, Cemetery, Kuppenheimer, Swimming Pool, and DARE Special Revenue Funds, and the Sewer, Water, Garbage, and North Sewer Construction Enterprise Funds had negative cash balances at December 31, 2005, contrary to Section 5705.10 ORC.

Estimated receipts exceeded actual receipts in the Street, Recreation, Cemetery, Swimming Pool in the Special Revenue Fund and Sewer and Water funds in the Enterprise Funds at December 31, 2005 causing actual resources to fall below the level of appropriation in the amounts of \$40,071, \$25,140, \$143,502, \$28,638, \$334,104 and \$4,868, respectively contrary to Section 5705.36 (A) (2).

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE (Continued)

B. Legal Compliance

The Street, Recreation, Cemetery, Fire, Swimming Pool Special Revenue Funds had final appropriations in excess of estimated resources in the amount of \$192,890, \$3,663, \$145,468, \$17,428, and \$28,638, respectively. The Sewer and Garbage Enterprise Funds had final appropriations in excess of estimated resources in the amount of \$267,973 and \$17,424, respectively contrary to Section 5705.39.

The Recreation, UDAG Revolving Loan, McNally, Railroad Depot, Drug Enforcement and Education, FD Special Programs, and Fire Levy disbursements exceeded appropriations at December 31, 2005 in the amount of \$2,077, \$17,371, \$15,363, \$2,313, \$27,324, \$25,687, and \$8,115, respectively contrary to Section 5705.41(B).

30% of the expenditures tested were not properly certified contrary to Section 5705.41(D).

The Utility Department did not deposit utility receipts on the next business day following the day of receipt with the City Treasurer for forty percent of the utility batch receipts tested and the City does not have a policy to permit their officials to hold money contrary to Section 9.38 .

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

The Statement of Revenues, Expenditures, and Changes in Fund Balances, Budget and Actual (Budget Basis), are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Outstanding yearend encumbrances are treated as expenditures (budget Basis) rather than as a reservation of fund balance (GAAP basis).
4. Fair market value adjustments and prepaid items are reported on the balance sheet at fair value (GAAP basis), rather than at cost (budgetary basis).

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (Continued)

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	Street Fund	Housing Preservation Fund
GAAP Basis	(\$62,305)	(\$93,025)	(\$239,765)	\$99,834
Net Adjustment for Revenue Accruals	(46,306)	0	(13,467)	(47,842)
Net Adjustment for Expenditure Accruals	15,566	28,323	224,401	0
Beginning of Year:				
Prepaid Items	44,137	1,939	485	0
Change in Fair Value	33,551	0	0	0
End of Year:				
Prepaid Items	(7,421)	(2,546)	(1,315)	0
Encumbrances	(17,802)	(4,655)	(12)	(72,005)
Budget Basis	<u>(\$40,580)</u>	<u>(\$69,964)</u>	<u>(\$29,673)</u>	<u>(\$20,013)</u>

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

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

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

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

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons; and
3. Obligations of the City.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Historically, the City has not purchased these types of investments or issued these types of notes. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

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 \$3,427,612 and the bank balance was \$3,529,546. Of the bank balance, \$300,000 was covered by Federal depository insurance and \$3,229,546 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

Investments

Investments are reported at fair value. As of December 31, 2005, the City had the following investments:

	Fair Value	Maturity
STAROhio	\$229,679	Average 39 Days

Interest Rate Risk

The City does not have an investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Risk.

STAROhio carries a rating of AAA by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service.

Concentration of Credit Risk is defined by the Governmental Accounting Standards Board as having five percent or more invested in the securities of a single issuer. The City's investment policy places no limit on the amount it may invest in any one issuer. The following is the City's allocation as of December 31, 2005:

Investment Issuer	Percentage of Investments
STAROhio	100.00%

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 7 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2005 for real and public utility property taxes represents collections of 2004 taxes. Property tax payments received during 2005 for tangible personal property (other than public utility property) is for 2005 taxes.

2005 real property taxes are levied after October 1, 2005, on assessed value as of January 1, 2005, the lien date. Assessed values are established by State law 35 percent of the appraised value. 2005 real property taxes are collected in and intended to finance 2006.

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. 2005 public utility property taxes became a lien December 31, 2004, are levied after October 1, 2005, and are collected in 2006 with real property taxes.

2005 tangible personal property taxes are levied after October 1, 2004, on the value as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are 25 percent of true value for all property except inventory, which has a rate of 23 percent.

The full tax rate for all City operations for the year ended December 31, 2005, was \$9.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property	\$35,164,580
Public Utility Real and Tangible Personal Property	19,137,740
Tangible Personal Property	<u>11,753,308</u>
Total Assessed Value	<u><u>\$66,055,628</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, 2005, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2005 operations. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 8 - INCOME TAX

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

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

Income tax proceeds are to be used for the purposes of general municipal operations, maintenance of facilities, new equipment, extension and enlargement of municipal services and facilities and capital improvements of the City of Wellston. In 2005, all proceeds were receipted into the General Fund.

NOTE 9 - RECEIVABLES

Receivables at December 31, 2005, consisted primarily of taxes; intergovernmental receivables arising from grants, loans, 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 \$151,449 for principal owed to the City for CDBG and UDAG revolving loan monies loaned to businesses for improvement and expansion efforts. The amount not scheduled for collection during the subsequent year is \$98,495.

A summary of intergovernmental receivables follows:

<u>Governmental Activities</u>	
Local Government Subsidies	\$42,510
Gasoline Tax	84,293
Motor Vehicle License Tax	32,269
CHIP Grant	168,989
Ohio Public Works Commission Grant	100,000
State of Ohio Industrial Site Improvement Grant	<u>225,000</u>
Total Governmental Activities	<u><u>\$653,061</u></u>

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 10 - CAPITALASSETS

Capital asset activity for the year ended December 31, 2005, was as follows:

	<u>Balance</u> <u>12/31/2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2005</u>
<u>Governmental Activities:</u>				
Non-Depreciable Capital Assets:				
Land	\$103,550	\$0	\$0	\$103,550
Total Non-Depreciable Capital Assets	<u>103,550</u>	<u>0</u>	<u>0</u>	<u>103,550</u>
Depreciable Capital Assets:				
Buildings	972,001	0	0	972,001
Equipment	181,151	0	0	181,151
Infrastructure	196,955	211,443	0	408,398
Vehicles	1,415,693	0	0	1,415,693
Total Depreciable Capital Assets	<u>2,765,800</u>	<u>211,443</u>	<u>0</u>	<u>2,977,243</u>
Accumulated Depreciation:				
Buildings	(339,707)	(21,918)	0	(361,625)
Equipment	(118,440)	(7,234)	0	(125,674)
Infrastructure	(6,565)	(20,179)	0	(26,744)
Vehicles	(426,300)	(71,393)	0	(497,693)
Total Accumulated Depreciation	<u>(891,012)</u>	<u>(120,724) *</u>	<u>0</u>	<u>(1,011,736)</u>
Total Depreciable Capital Assets, Net	<u>1,874,788</u>	<u>90,719</u>	<u>0</u>	<u>1,965,507</u>
Governmental Activities Capital Assets, Net	<u>\$1,978,338</u>	<u>\$90,719</u>	<u>\$0</u>	<u>\$2,069,057</u>

*Depreciation expense was charged to governmental activities as follows:

<u>Governmental Activities:</u>	
Security of Persons and Property	\$56,740
Transportation	9,615
Leisure Time Activities	33,736
Public Health Services	350
Community Environment	20,283
Total Depreciation Expense	<u>\$120,724</u>

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

	Balance 12/31/2004	Additions	Reductions	Balance 12/31/2005
<u>Business - Type Activities:</u>				
Non Depreciable Capital Assets:				
Construction in Progress	\$74,130	\$5,948	(\$44,178)	\$35,900
Total Non Depreciable Capital Assets	<u>74,130</u>	<u>5,948</u>	<u>(44,178)</u>	<u>35,900</u>
Depreciable Capital Assets:				
Buildings	10,524,332	0	(571,328)	9,953,004
Equipment	301,685	0	0	301,685
Infrastructure	3,654,198	49,470	0	3,703,668
Vehicles	589,269	0	0	589,269
Total Depreciable Capital Assets	<u>15,069,484</u>	<u>49,470</u>	<u>(571,328)</u>	<u>14,547,626</u>
Accumulated Depreciation:				
Buildings	(3,230,656)	(255,966)	535,620	(2,951,002)
Equipment	(161,899)	(15,376)	0	(177,275)
Infrastructure	(664,039)	(51,459)	0	(715,498)
Vehicles	(339,990)	(46,743)	0	(386,733)
Total Accumulated Depreciation	<u>(4,396,584)</u>	<u>(369,544)</u>	<u>535,620</u>	<u>(4,230,508)</u>
Total Depreciable Capital Assets, Net	<u>10,672,900</u>	<u>(320,074)</u>	<u>(35,708)</u>	<u>10,317,118</u>
Business - Type Activities Capital Assets, Net	<u>\$10,747,030</u>	<u>(\$314,126)</u>	<u>(\$79,886)</u>	<u>\$10,353,018</u>

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 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, OH 43215-4642 or by calling (614) 222-6701 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The employer contribution rate for pension benefits for 2005 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the employer's pension contributions were 12.7

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$184,080, \$124,918, and \$168,787, respectively; 73.13 percent has been contributed for 2005 and 100 percent for 2004 and 2003. Contributions to the member-directed plan for 2005 were \$4,444 made by the City and \$2,788 made by the plan members.

B. Police and Firemen's Disability and Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension benefits while the employer is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to OP&F for police and firefighters were \$62,793 and \$25,235 for the year ended December 31, 2005; \$25,058 and \$17,287 for the year ended December 31, 2004, and \$39,064 and \$19,741 for the year ended December 31, 2003. The full amount has been contributed for 2004 and 2003. 71.04 percent has been contributed for 2005.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System (OPERS)

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)

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

The number of active contributing participants in the traditional and combined plans was 376,109. Actual City contributions for 2005 which were used to fund postemployment benefits were \$77,102. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) was \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

B. Police and Firemen's Disability and Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2005 and 2004. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2005 that were used to fund postemployment benefits were \$41,417 for police and \$16,644 for firefighters. The OP&F's total health care expense for the year ended December 31, 2004, (the latest information available) was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004, was 13,812 for police and 10,528 for firefighters

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 13 – OTHER EMPLOYEE BENEFITS

A. Deferred Compensation Plans

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

B. Employee Insurance Benefits

The City provides \$50,000 in life insurance and accidental death and dismemberment insurance through Anthem 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 \$312.09; for an employee with one child coverage is \$526.83; for an employee and spouse coverage is \$686.00; and for family coverage is \$963.45. The City pays 90 percent of all premiums. Premiums are paid from the same funds that pay the employees' salaries.

C. Compensated Absences

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

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

NOTE 14 - RISK MANAGEMENT

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

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

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 14 - RISK MANAGEMENT (Continued)

For 2005, the City paid the state workers' compensation system a premium based on a rate per \$100 of salaries. This rate is calculated based on accidents, history, and administrative costs. The participation in this state mandated insurance fund allows the City to transfer all risk associated with workers compensation.

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

NOTE 15 - INTERFUND TRANSACTIONS

Interfund Receivable and Interfund Payable balances at December 31, 2005, consist of the following:

<u>Interfund Receivables and Payables</u>	<u>Receivable</u>	<u>Payable</u>
General Fund	<u>\$323,625</u>	<u>\$137,760</u>
 <u>Special Revenue Funds:</u>		
Street	0	31,463
Cemetery	0	133,526
County Sales Tax	137,760	0
Railroad Depot	0	0
D.A.R.E.	0	244
Kuppenheimer	0	838
Swimming Pool	<u>0</u>	<u>24,630</u>
McNally Building	<u>0</u>	<u>0</u>
 Total Special Revenue Funds	 <u>137,760</u>	 <u>190,701</u>
 <u>Enterprise Fund:</u>		
Water	0	44,218
Sewer	0	33,865
Garbage	<u>0</u>	<u>54,841</u>
 Total Enterprise Funds	 <u>0</u>	 <u>132,924</u>
 Total	 <u>\$461,385</u>	 <u>\$461,385</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 County Sales Tax Special Revenue Fund.

There was a transfer from the General Fund to the Recreation Special Revenue Fund to finance recreation activities.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 16 - LONG-TERM OBLIGATIONS

Changes in the City's long-term obligations during 2005 consist of the following:

	Outstanding 12/31/2004	Additions	Reductions	Outstanding 12/31/2005	Amounts Due Within One Year
<u>Governmental Activities:</u>					
Police Cruisers Loan - 2004 - \$60,037 - 3.25%	\$40,346	\$0	\$19,850	\$20,496	\$20,496
Fire Trucks Loan - 2001 - \$221,000 - 6.04%	195,232	0	7,486	187,746	7,952
Street Sweeper Loan - 2004 - \$102,561 - 3.4%	85,478	0	15,973	69,505	16,516
Fire Trucks Loan - 2004 - \$413,052 - 3%	357,314	0	55,367	301,947	57,028
Jackson County Commissioners CDBG Loan - 2003 - \$50,000 - 0%	43,334	0	3,334	40,000	3,333
Total Loans	721,704	0	102,010	619,694	105,325
Compensated Absences	57,007	9,725	17,690	49,042	24,085
Total Governmental Activities	\$778,711	\$9,725	\$119,700	\$668,736	\$129,410
<u>Business-Type Activities:</u>					
<u>General Obligation Bonds</u>					
Sewer Farmers Home Administration - 1993 - 5.00%	\$700,000	\$0	\$12,000	\$688,000	\$13,000
<u>Revenue Bonds</u>					
Water System Improvement - 2002 - 4.10%	357,143	0	71,429	285,714	71,428
Sewer Farmers Home Administration - 1993 - 5.00%	1,752,000	0	30,000	1,722,000	31,000
Total Revenue Bonds Payable	2,109,143	0	101,429	2,007,714	102,428
<u>OPWC Loans</u>					
Water Line Improvements - 1996 - 0.00%	357,500	0	32,500	325,000	32,500
Water System Rennovations - 1992 - 0.00%	27,940	0	3,991	23,949	3,991
South Wastewater Treatment Plant - 1996 - 0.00%	271,177	0	271,177	0	0
Green Acres Sewer Line - 2000 - 0.00%	46,996	0	3,032	43,964	3,032
Total OPWC Loans Payable	703,613	0	310,700	392,913	39,523
<u>OWDA Loans</u>					
Water Line Improvement - 1995 - 2.00%	801,579	0	73,206	728,373	74,670
Sewer Fund - 1996 - 2.20%	583,851	0	45,141	538,710	46,140
Sewer Fund - 2001 - 2.20%	977,410	0	73,172	904,238	74,782
Total OWDA Loans Payable	2,362,840	0	191,519	2,171,321	195,592
<u>Other Loans</u>					
WSOS Community Action Safe Water - 2002 - 3.00%	98,102	0	11,861	86,241	12,219
Sewer Vactor Manufacturing - 2003 - 5.19%	89,951	0	28,480	61,471	29,958
Garbage Truck First National Wellston - 2004 - 3.25%	98,452	0	15,582	82,870	14,734
Total Other Loans Payable	286,505	0	55,923	230,582	56,911
Compensated Absences Payable	48,684	6,784	8,962	46,506	20,778
Total Business-Type Activities	\$6,210,785	\$6,784	\$680,533	\$5,537,036	\$428,232

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 16 - LONG-TERM OBLIGATIONS (Continued)

Governmental Activities:

The police cruisers loan was issued on February 9, 2004, for \$60,037 and matures on November 11, 2006. The fire trucks loan was issued on January 14, 2004, for \$413,052, and matures on November 11, 2010. The police cruiser obligation will be paid from the General Fund and the fire truck loan will be paid from the Fire Levy Special Revenue Fund.

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

The Street Sweeper Loan was issued in 2004 for \$102,561 and matures in 2009. 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, 2005, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2006	\$105,325	\$23,465
2007	87,595	20,034
2008	90,416	17,212
2009	93,434	14,195
2010	76,829	11,112
2011-2015	77,494	35,822
2016-2020	88,601	14,399
	<u>\$619,694</u>	<u>\$136,239</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.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 16 - LONG-TERM OBLIGATIONS (Continued)

Principal and interest requirements to retire the City's general obligation bonds outstanding at December 31, 2005 are:

Year	Principal	Interest
2006	\$13,000	\$34,400
2007	13,000	33,750
2008	14,000	33,100
2009	15,000	32,400
2010	15,000	31,650
2011-2015	89,000	146,540
2016-2020	113,000	121,600
2021-2025	144,000	90,350
2026-2030	184,000	50,500
2031-2032	88,000	6,650
	<u>\$688,000</u>	<u>\$580,940</u>

Revenue Bonds

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

Principal and interest requirements to retire the City's revenue bonds outstanding at December 31, 2005 are:

Year	Principal	Interest
2006	\$102,428	\$97,814
2007	104,429	93,336
2008	106,428	88,757
2009	107,429	84,079
2010	38,000	79,350
2011-2015	222,000	366,200
2016-2020	283,000	304,800
2021-2025	362,000	226,650
2026-2030	463,000	126,450
2031-2032	219,000	16,550
	<u>\$2,007,714</u>	<u>\$1,483,986</u>

OPWC Loans

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

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

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 16 - LONG-TERM OBLIGATIONS (Continued)

Principal requirements to retire the City's OPWC loans outstanding at December 31, 2005 are:

<u>Year</u>	<u>Principal</u>
2006	\$39,523
2007	39,523
2008	39,523
2009	39,523
2010	39,523
2011-2015	149,151
2016-2020	46,147
Total	<u>\$392,913</u>

OWDA Loans

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

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

Principal and interest requirements to retire the City's enterprise OWDA loans outstanding at December 31, 2005 are as follow:

<u>Year</u>	<u>OWDA</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$195,592	\$46,059
2007	199,750	41,900
2008	204,000	37,651
2009	208,338	33,315
2010	212,773	28,878
2011-2015	1,047,297	71,722
2016	103,571	1,242
Total	<u>\$2,171,321</u>	<u>\$260,767</u>

Other Loans

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

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

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 16 - LONG-TERM OBLIGATIONS (Continued)

Principal and interest requirements to retire the City's other loans outstanding at December 31, 2005 were:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2006	\$56,911	\$8,142
2007	60,729	5,687
2008	30,144	3,122
2009	31,103	2,164
2010	30,357	1,179
2011-2012	21,338	642
Total	<u>\$230,582</u>	<u>\$20,936</u>

As of December 31, 2005, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$6,171,806.

NOTE 17 - CONTINGENT LIABILITIES

A. Litigation

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

B. Federal and State Grants

For the period January 1, 2005 to December 31, 2005, 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 18 - CONTRACTUAL COMMITMENTS

As of December 31, 2005, the City had a contractual purchase commitment for projects in the Water Enterprise fund as follows:

<u>Vendor</u>	<u>Fund</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Amount Remaining</u>	<u>Purpose</u>
Philadelphia Control Systems	Water	\$47,500	\$35,900	\$11,600	Water Treatment Project

NOTE 19 – RELATED PARTY TRANSACTIONS

During 2005 the City acquired various products and services from Woolum's Business Products and Clark's Garage for a total of \$2,013 and \$30,700 respectively. These local businesses were owned by Council Members, Keith Woolum and Tom Clark, respectively.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 20 - GOING CONCERN

The accompanying basic financial statements have been prepared in accordance with GAAP, which requires an assessment of the City's ability to continue as a going concern. The City has sustained a decrease in the General fund balance in recent years and negative fund balances were noted in the Street Fund of (\$232,056), Cemetery Fund of (\$148,497) and the Garbage Fund (\$117,675). At December 31, 2005, total expenses exceeded total revenues by \$34,305 in the General fund. Continued operations are dependent upon the City's ability to meet financing requirements and current obligations.

Management believes that actions currently being undertaken to decrease overtime in payroll expenses and other obligations will provide the funding necessary for it to continue as a going concern.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

To the members of 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, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as item 2005-007 and 2005-008.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

City of Wellston
Jackson County

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2005-001 through 2005-006.

We also noted certain additional matters that were reported to management of the City in a separate letter dated November 15, 2006.

This report is intended solely for the information and use of management and City Council and is not intended to be and should not be used by anyone other than these parties.

Caudill & Associates, CPAs

Caudill & Associates, CPA's
November 15, 2006

**CITY OF WELLSTON
JACKSON COUNTY**

SCHEDULE OF FINDINGS

FOR THE YEAR ENDED DECEMBER 31, 2005

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

FINDING NUMBER 2005-001

Noncompliance Citation

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

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

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

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

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

City Response:

City officials will work on a written policy to correct this situation.

CITY OF WELLSTON
JACKSON COUNTY

SCHEDULE OF FINDINGS

FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)

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

FINDING NUMBER 2005-002

Noncompliance Citation

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

The City had negative fund cash balances at December 31, 2005 as follows:

<u>Fund Type/Fund</u>	<u>Deficit</u>
<u>Special Revenue:</u>	
Street	\$ (31,475)
Cemetery	(133,526)
DARE	(244)
Kuppenheimer	(838)
Swimming Pool	(24,630)
<u>Enterprise:</u>	
Garbage	(54,841)
Water	(92,254)
Sewer	(273,547)
North Sewer Construction	(17,198)

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

City Response:

City officials will monitor fund balances more closely.

CITY OF WELLSTON
JACKSON COUNTY

SCHEDULE OF FINDINGS

FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)

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

FINDING NUMBER 2005-003

Noncompliance Citation

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

Estimated receipts exceeded actual receipts in several funds at December 31, 2005 causing actual resources to fall below the level of appropriation as follows:

<u>Fund</u>	<u>Actual Resources</u>	<u>Appropriations</u>	<u>Variance</u>
<u>Special Revenue:</u>			
Street	263,490	303,561	(40,071)
Recreation	43,901	69,041	(25,140)
Cemetery	56,948	200,450	(143,502)
Pool	9,452	38,090	(28,638)
<u>Enterprise:</u>			
Sewer	881,193	1,215,297	(334,104)
Water	1,546,957	1,551,825	(4,868)

This could allow deficit spending to occur, as indicated in Finding Number 2005-002.

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

CITY OF WELLSTON
JACKSON COUNTY

SCHEDULE OF FINDINGS

FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)

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

FINDING NUMBER 2005-003 (Continued)

City Response:

City officials will monitor budgetary compliance more closely.

FINDING NUMBER 2005-004

Noncompliance Citation

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

Appropriations exceeded estimated resources for the year ended December 31, 2005 as follows:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
<u>Special Revenue:</u>			
Street	110,671	303,561	(192,890)
Recreation	65,378	69,041	(3,663)
Cemetery	54,982	200,450	(145,468)
Fire	359,258	376,686	(17,428)
Pool	9,452	38,090	(28,638)
<u>Enterprise:</u>			
Sewer	947,324	1,215,297	(267,973)
Garbage	278,406	295,830	(17,424)

**CITY OF WELLSTON
JACKSON COUNTY**

SCHEDULE OF FINDINGS

**FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

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

FINDING NUMBER 2005-004 (Continued)

This could allow deficit spending to occur, as indicated in Finding Number 2005-002.

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

City Response:

City officials will monitor budgetary compliance more closely.

FINDING NUMBER 2005-005

Noncompliance Citation

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

Expenditures exceeded appropriations at December 31, 2005 in the following funds:

Fund	Appropriations	Actual Expenditures	Variance
<u>Special Revenue:</u>			
Recreation	69,041	71,118	(2,077)
UDAG Revolving Loan	35,000	52,371	(17,371)
McNally	157,000	172,363	(15,363)
Railroad Depot	7,600	9,913	(2,313)
Drug Education & Enforcement	5,000	32,324	(27,324)
FD Special Programs	4,500	30,187	(25,687)
Fire Levy	376,686	384,801	(8,115)

**CITY OF WELLSTON
JACKSON COUNTY**

SCHEDULE OF FINDINGS

**FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2005-005 (Continued)

Additionally, expenditures exceeded appropriations at the legal level of control for several line items. This could result in deficit spending, as indicated in Finding Number 2005-002.

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

City Response:

City officials will monitor budgetary compliance more closely.

FINDING NUMBER 2005-006

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

The following exceptions to this basic requirement are provided by Ohio Rev. Code Section 5705.41 (D)(1):

Then and Now Certificate: If the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has 30 days from the receipt of the "then and now" certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$100 for counties, or less than \$3,000 for other political subdivisions, may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

30% of the expenditures tested were not properly certified.

**CITY OF WELLSTON
JACKSON COUNTY**

SCHEDULE OF FINDINGS

**FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

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

FINDING NUMBER 2005-006 (Continued)

We recommend the City implement policies to ensure that all purchases first have monies certified by the City Auditor before purchasing or ordering an item. We also recommend the use of a “then and now” certificate in instances of emergency or absence of proper authority.

City Response:

City officials will monitor the proper certifying of expenditures more closely.

FINDING NUMBER 2005-007

Reportable Condition

Related Party Transactions

Several Council members owned companies with which the City did business. Although these companies have been used by the City for several years, there was no documentation to support that other vendors were considered. This caused related party transactions to occur.

We recommend City Council consider other vendors, and maintain supporting documentation that indicates other vendors were considered. If the Council member’s company is used, that Council member should abstain from any vote made regarding the decision to do business with that company. City Council should consult with the City Law Director for guidance when potential conflict of interest issues arise.

City Response:

City officials will obtain future quotes in a file.

**CITY OF WELLSTON
JACKSON COUNTY**

SCHEDULE OF FINDINGS

**FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

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

FINDING NUMBER 2005-008

Reportable Condition

It was discovered during our audit testing that City workers were allowed by City management to use City Equipment for personal use.

By allowing City workers to use City equipment for personal use, the City is at risk for potential liability issues. Also, the issue of unethical activity is a problem along with the appearance of the misuse of public funds from the City's Constituents.

We recommend that City Council review this type of activity and issue a written policy to address this issue.

City Response:

No response from City management. The State Auditor's Office has been notified for further resolution of this issue.

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2004-001	Finding for Recovery of overpayment of clothing allowance.	Yes	
2004-002	Noncompliance of Ohio Rev. Code Section 9.38	No	Not corrected. Repeated as Finding Number 2005 - 001
2004-003	Noncompliance of Ohio Rev. Code Section 5705.10	No	Not corrected. Repeated as Finding Number 2005-002
2004-004	Noncompliance of Ohio Rev. Code Section 5705.36 (A) (2)	No	Not corrected. Repeated as Finding Number 2005 - 003
2004-005	Noncompliance of Ohio Rev. Code Section 5705.39	No	Not corrected. Repeated as Finding Number 2005 - 004
2004-006	Noncompliance of Ohio Rev. Code Section 5705.41 (B)	No	Not corrected. Repeated as Finding Number 2005 - 005
2004-007	Ordinance 50.08(B)	Yes	
2004-008	Ordinance 51.13	Yes	
2004-009	Bank Reconciliations were not accurate	Yes	



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
MARCH 20, 2007