



CITY OF WELLSTON, OHIO

REGULAR AUDIT

For the Year Ended December 31, 2017

J.L. UHRIG
AND ASSOCIATES INC.

CERTIFIED PUBLIC ACCOUNTANT AND MANAGEMENT CONSULTANTS





Dave Yost • Auditor of State

Council Members
City of Wellston
20 East Broadway
Wellston, Ohio 45692

We have reviewed the *Independent Auditor's Report* of the City of Wellston, Jackson County, prepared by J.L. Uhrig and Associates, Inc., for the audit period January 1, 2017 through December 31, 2017. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

September 17, 2018

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CITY OF WELLSTON
JACKSON COUNTY, OHIO
Table of Contents
For the Year Ended December 31, 2017

Independent Auditor's Report	1
Management's Discussion and Analysis.....	4
Basic Financial Statements:	
<u>Government-wide Financial Statements:</u>	
Statement of Net Position.....	15
Statement of Activities.....	16
<u>Fund Financial Statements:</u>	
Balance Sheet - Governmental Funds.....	18
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities.....	19
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	21
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budget Basis)	
General Fund.....	22
Fire Levy Fund.....	23
Street Fund.....	24
Statement of Fund Net Position - Enterprise Funds	25
Statement of Revenues, Expenses and Changes in Net Position - Enterprise Funds.....	26
Statement of Cash Flows - Enterprise Funds.....	27
Statement of Fiduciary Assets and Liabilities - Agency Fund.....	28
Notes to the Basic Financial Statements.....	29
Required Supplemental Schedules:	
Schedule of the City's Proportionate Share of the Net Pension Liability	
OPERS – Traditional Plan – Last Four Fiscal Years.....	66
Ohio Police and Fire Pension Fund – Last Four Fiscal Years	67

CITY OF WELLSTON
JACKSON COUNTY, OHIO
Table of Contents
For the Year Ended December 31, 2017

Schedule of City Contributions	
OPERS – Traditional Plan – Last Five Fiscal Years.....	69
Ohio Police and Fire Pension Fund – Last Ten Fiscal Years.....	70
Notes to the Required Supplementary Information.....	72

Audit Report:

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	73
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Independent Auditor's Report

City of Wellston
Jackson County
20 East Broadway
Wellston, Ohio 45692

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Wellston, Jackson County, Ohio, (the City) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the designing, implementing, and maintaining internal control relevant to the preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement, whether due to fraud or error. In assessing those risk, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Wellston, Jackson County as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows, thereof and the respective budgetary comparisons for the General Fund, Fire Levy Fund and Street Fund thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include Management's discussion and analysis on pages 4-14 and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquires of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquires, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated June 26, 2018 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. 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 provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

J. L. Uhrig and Associates, Inc.

J. L. UHRIG AND ASSOCIATES, INC.
Chillicothe, Ohio

June 26, 2018

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City of Wellston, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
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, 2017. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2017 are as follows:

- The City's total net position increased by 1.8 percent, or \$300,982, from the total net position at the beginning of the year.
- At the end of the current year, the City's governmental activities reported total net position of \$7,351,622, a decrease of \$150,531 from the prior year. Unrestricted net position was (\$74,778).
- At the end of the current year, the City's business-type activities reported total net position of \$9,933,201, an increase of \$451,513 from the prior year. Unrestricted net position was \$1,683,982.
- At the end of the current year, unassigned fund balance for the General Fund was \$1,023,371, which represents a 7.5 percent increase from the prior year.

Using this Annual Financial Report

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

The Statement of Net Position 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. 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 Position 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 2017?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

City of Wellston, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

These two statements report the City's net position and changes in net positions. This change in net position 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 Position and the Statement of Activities, the City is divided into two kinds of activities:

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

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

Reporting the City of Wellston's Most Significant Funds

Fund Financial Statements

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

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

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

City of Wellston, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

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

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

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

The City of Wellston as a Whole

Recall that the Statement of Net Position looks at the City as a whole. Table 1 provides a summary of the City's net position for 2017 compared to 2016.

City of Wellston, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	Restated 2016	2017	Restated 2016
Assets						
Current and Other Assets	\$6,530,107	\$6,288,141	\$3,165,876	\$2,647,101	\$9,695,983	\$8,935,242
Capital Assets	3,417,898	3,619,526	11,000,100	10,894,347	14,417,998	14,513,873
<i>Total Assets</i>	<u>9,948,005</u>	<u>9,907,667</u>	<u>14,165,976</u>	<u>13,541,448</u>	<u>24,113,981</u>	<u>23,449,115</u>
Deferred Outflows of Resources						
Pension	599,083	617,704	633,771	420,499	1,232,854	1,038,203
Liabilities						
Current and Other Liabilities	129,012	159,260	405,797	451,324	534,809	610,584
Long-term Liabilities:						
Due Within One Year	110,380	116,154	170,888	183,126	281,268	299,280
Due in More than One Year:						
Net Pension Liability	2,136,524	1,929,946	1,600,724	1,116,452	3,737,248	3,046,398
Other Amounts	289,420	294,696	2,679,611	2,650,915	2,969,031	2,945,611
<i>Total Liabilities</i>	<u>2,665,336</u>	<u>2,500,056</u>	<u>4,857,020</u>	<u>4,401,817</u>	<u>7,522,356</u>	<u>6,901,873</u>
Deferred Inflows of Resources						
Property Taxes	522,333	508,244	0	0	522,333	508,244
Pension	7,797	14,918	9,526	78,442	17,323	93,360
<i>Total Deferred Inflows of Resources</i>	<u>530,130</u>	<u>523,162</u>	<u>9,526</u>	<u>78,442</u>	<u>539,656</u>	<u>601,604</u>
Net Position						
Net Investment in Capital Assets	3,151,984	3,307,067	8,249,219	8,159,590	11,401,203	11,466,657
Restricted for:						
Street Construction	680,927	648,553	0	0	680,927	648,553
Police Protection	12,257	3,853	0	0	12,257	3,853
Fire Protection	110,822	105,387	0	0	110,822	105,387
Community Development	271,939	335,528	0	0	271,939	335,528
Capital Projects	2,451,679	2,457,257	0	0	2,451,679	2,457,257
Cemetery	79,085	53,227	0	0	79,085	53,227
Cemetery Perpetual Care	251,268	251,268	0	0	251,268	251,268
Unclaimed Monies	3,787	0	0	0	3,787	0
Other Purposes	412,652	330,591	0	0	412,652	330,591
Unrestricted	(74,778)	9,422	1,683,982	1,322,098	1,609,204	1,331,520
<i>Total Net Position</i>	<u>\$7,351,622</u>	<u>\$7,502,153</u>	<u>\$9,933,201</u>	<u>\$9,481,688</u>	<u>\$17,284,823</u>	<u>\$16,983,841</u>

The net pension liability (NPL) is the largest single liability reported by the City at December 31, 2017 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

City of Wellston, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 requires the net pension liability to equal the City's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the City's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

The significant increase in total deferred outflow of resources in 2017 was due to an increase in the difference between projected and actual earnings on investments related to the City's net pension liability for OPERS and OP&F. The net pension liability increase represents the City's proportionate share of the OPERS traditional and OP&F plans' unfunded benefits. As indicated above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability.

City of Wellston, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

Table 2
Changes in Net Position

	Governmental Activities 2017	Business- Type Activities 2017	Total 2017	Governmental Activities 2016	Restated Business - Type Activities 2016	Restated Total 2016
Revenues						
Program Revenues:						
Charges for Services	\$343,404	\$3,051,298	\$3,394,702	\$294,109	\$2,872,305	\$3,166,414
Operating Grants and Contributions	398,950	0	398,950	903,557	0	903,557
Capital Grants and Contributions	0	315,694	315,694	270,431	0	270,431
<i>Total Program Revenues</i>	<i>742,354</i>	<i>3,366,992</i>	<i>4,109,346</i>	<i>1,468,097</i>	<i>2,872,305</i>	<i>4,340,402</i>
General Revenues:						
Property Taxes	586,473	0	586,473	592,196	0	592,196
Income Taxes	1,276,065	0	1,276,065	1,297,098	0	1,297,098
Grants and Entitlements	414,097	0	414,097	127,691	0	127,691
Investment Earnings	57,078	0	57,078	55,087	0	55,087
Miscellaneous	95,654	94,674	190,328	75,520	82,667	158,187
Total General Revenues	2,429,367	94,674	2,524,041	2,147,592	82,667	2,230,259
Total Revenues	3,171,721	3,461,666	6,633,387	3,615,689	2,954,972	6,570,661
Program Expenses						
General Government	896,870	0	896,870	758,450	0	758,450
Security of Persons and Property:						
Police	1,143,392	0	1,143,392	996,737	0	996,737
Fire	556,352	0	556,352	652,668	0	652,668
Transportation	530,186	0	530,186	555,601	0	555,601
Leisure Time Activities	33,242	0	33,242	26,635	0	26,635
Public Health Services	68,806	0	68,806	66,411	0	66,411
Community Environment	83,482	0	83,482	97,868	0	97,868
Interest and Fiscal Charges	9,922	0	9,922	8,229	0	8,229
Water	0	1,594,448	1,594,448	0	1,670,777	1,670,777
Sewer	0	1,079,270	1,079,270	0	914,747	914,747
Garbage	0	336,435	336,435	0	312,652	312,652
<i>Total Program Expenses</i>	<i>3,322,252</i>	<i>3,010,153</i>	<i>6,332,405</i>	<i>3,162,599</i>	<i>2,898,176</i>	<i>6,060,775</i>
Change in Net Position	(150,531)	451,513	300,982	453,090	56,796	509,886
Net Position Beginning of Year (Restated)	7,502,153	9,481,688	16,983,841	7,049,063	9,424,892	16,473,955
Net Position End of Year	\$7,351,622	\$9,933,201	\$17,284,823	\$7,502,153	\$9,481,688	\$16,983,841

Governmental Activities

Operating grants and contributions accounted for 12.6 percent of total governmental revenues. Operating grants decreased \$504,607, or 55.8 percent from 2016. This decrease was primarily due to a grant received for a fire department burn building during 2016. Capital grants and contributions decreased 100 percent from 2016. This decrease was due to a recreation grant for the City's park. Property Tax revenue provided 18.5 percent of total governmental revenues, and 40.2 percent was generated from income taxes. Income taxes, property taxes, and unrestricted grants and entitlements combined together, provided 71.8 percent of the City's total governmental revenues.

The City received \$343,404, or 10.8 percent of total governmental revenues, in charges for services. This was an increase of \$49,295 from 2016, or 16.8 percent, which was primarily due to an increase in fire department training fees. In addition to these training fees, these direct charges to citizens include fire protection contracts, court fines and forfeitures, police security services, and licenses and permits.

City of Wellston, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

The City's security of persons and property, police, activities accounted for \$1,143,392, or 34.4 percent, of total expenses. This was an increase from 2016 of \$146,655, or 14.7 percent, primarily due to an increase in prisoner housing, wages, and an increase in the purchase of materials and supplies.

General government activities accounted for \$896,870, or 27 percent, of total expenses. This was an increase in expenses of \$138,420, or 18.3 percent, primarily due to an increase in the purchase of materials and supplies.

Community Environment activity accounted for \$83,482, or 2.5 percent, of total expenses. This was a decrease in expenditures of \$14,386, or 14.7 percent, due to final payments on the Frick Gallagher clean-up site being made during 2016.

Leisure Time Activities accounted for \$33,242, or 1 percent, of total expenses. Leisure Time Activities increased \$6,607, or 24.8 percent, due to an increase in depreciation for new assets.

Transportation accounted for \$530,186, or 16 percent, of total expenses. Transportation expenses decreased \$25,415 from 2016, or 4.6 percent. This decrease was primarily due to a decrease in the purchase of supplies and materials.

Security of persons and property, fire, activities accounted for \$556,352, or 16.7 percent, of total expenses. These expenditures decreased \$96,316, which was primarily due to the fire department renovation being mostly completed during 2016.

Public health activities accounted for \$68,806, or 2 percent, of total expenses. This is an increase of \$2,395, or 3.6 percent, primarily due to an increase in the purchase of materials and supplies.

Business-Type Activities

The City's business-type activities are for water, sewer, and garbage services. During 2017, program revenues exceeded expenses by \$356,839. Water fund expenses decreased from 2016 by \$76,329, or 4.7 percent, primarily due to a decrease in the purchase of materials and supplies, offset by an increase in personal services and fringe benefits. Sewer fund expenses increased from 2016 by \$164,523, or 18 percent, primarily due to an increase in personal services and fringe benefits. Garbage fund expenses increased from 2016 \$23,783, or 7.6 percent, primarily due to an increase in fringe benefits and materials and supplies, offset by a decrease in contractual services.

The minimum water rate is \$3 for the first one thousand gallons of water. Sewer fees are calculated on the amount of water used. The minimum sewer rate is \$3.50 per month. Garbage fees are assessed at a flat rate of a \$14.33 per month.

The City's Funds

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

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

City of Wellston, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

General Fund

The General Fund is the primary operating fund of the City. At the end of 2017, fund balance was \$1,315,937. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund disbursements. Unassigned fund balance represents 60 percent of total General Fund disbursements, while total fund balance represents 77.3 percent of that same amount.

The fund balance of the City's General Fund increased by \$157,668.

Other Major Governmental Funds

The fund balance of the Fire Levy Special Revenue Fund at December 31, 2017, was \$45,355, an increase of \$15,193, which was primarily due to a decrease in spending.

The fund balance of the Street Fund at December 31, 2017, was \$322,630. At December 31, 2016, the fund balance of the Street Fund was \$335,994, a decrease of \$13,364. This was primarily due to an increase in spending.

The fund balance of the Permanent Investment Capital Projects Fund at December 31, 2017, was \$2,433,835, the same as the prior year. The balance represents the proceeds from the 1967 sale of the City's electric utility.

Enterprise Funds

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

The City's enterprise funds are the Water, Sewer, and Garbage Funds. The Water Fund's net position increased \$370,471, primarily due to an increase in capital assets, offset by an increase in OWDA loans payable. The Sewer Fund's net position increased \$65,274, primarily due to an increase in cash, offset by an increase in liabilities. The Garbage Fund's net position increased \$15,768. The increase in the Garbage Fund's net position was primarily due to a decrease in liabilities due to the repayment of debt, offset by an increase in other liabilities.

General Fund Budgetary Highlights

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

The City did not make significant revisions to the original appropriations approved by City Council.

City of Wellston, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

Capital Assets and Debt Administration

Capital Assets

At the end of 2017, the City had \$14,417,998 invested in capital assets, net of accumulated depreciation. Table 4 shows fiscal year 2017 balances compared to 2016.

Table 3
Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	\$472,380	\$472,380	\$263,500	\$263,500	\$735,880	\$735,880
Construction in Progress	24,544	399,265	108,215	53,877	132,759	453,142
Improvements Other than Buildings	216,286	244,923	5,135	6,276	221,421	251,199
Buildings and Improvements	1,220,598	865,702	2,799,468	2,923,665	4,020,066	3,789,367
Equipment	284,838	193,221	209,548	242,572	494,386	435,793
Infrastructure	814,546	895,391	7,389,752	7,203,615	8,204,298	8,099,006
Vehicles	384,706	548,644	224,482	200,842	609,188	749,486
Totals	<u>\$3,417,898</u>	<u>\$3,619,526</u>	<u>\$11,000,100</u>	<u>\$10,894,347</u>	<u>\$14,417,998</u>	<u>\$14,513,873</u>

The total decrease in the City's capital assets, net of accumulated depreciation, for the current year was \$95,875 or 0.6 percent.

Governmental capital assets decreased in the amount \$201,628 due to depreciation. Business-type activities increased in the amount of \$105,753, due to additions, which were offset by depreciation.

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

Debt

As of December 31, 2017, and December 31, 2016, the City had total long-term debt of \$3,016,795 and \$3,050,550, respectively, as follows:

Table 4
Outstanding Debt

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
General Obligation Bonds	\$0	\$0	\$488,000	\$509,000	\$488,000	\$509,000
Revenue Bonds	0	0	1,222,000	1,276,000	1,222,000	1,276,000
OPWC Loans	0	0	58,016	64,810	58,016	64,810
OWDA Loans	0	0	982,865	856,330	982,865	856,330
Other Long-Term Loans	265,914	315,793	0	28,617	265,914	344,410
Totals	<u>\$265,914</u>	<u>\$315,793</u>	<u>\$2,750,881</u>	<u>\$2,734,757</u>	<u>\$3,016,795</u>	<u>\$3,050,550</u>

The City's overall legal debt margin was \$6,128,498. For additional information on debt, see Note 15 to the basic financial statements.

City of Wellston, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

Current Issues

In July 2017, the City was released from fiscal emergency. The City continues to follow the policies that brought fiscal solvency and continues to look for new ways to improve efficiencies and services to the citizens of Wellston. In February, 2017, the City implemented rate changes to the water and sewer funds as a result of a study performed by the Rural Community Assistance Program (RCAP), and continues to monitor the effectiveness of this change. This change will give the City the ability to make much needed upgrades to its aging water and sewer systems.

Requests for Information

This financial report is designed to provide the City's citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report, please contact the City of Wellston Auditor's Office by calling (740)-384-2428 or by writing the City Auditor at 203 East Broadway, Wellston, Ohio 45692.

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City of Wellston, Ohio
Statement of Net Position
December 31, 2017

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,432,346	\$2,750,888	\$5,183,234
Investments	198,448	0	198,448
Investments in Segregated Accounts	2,433,835	0	2,433,835
Interest Receivable	1,348	0	1,348
Accounts Receivable	0	254,038	254,038
Permissive Motor Vehicle License Tax Receivable	6,295	0	6,295
Intergovernmental Receivable	246,570	120,220	366,790
Income Taxes Receivable	320,914	0	320,914
Property Taxes Receivable	723,441	0	723,441
Loans Receivable	115,156	0	115,156
Prepaid Items	25,407	17,897	43,304
Materials and Supplies Inventory	26,347	22,833	49,180
Non-Depreciable Capital Assets	496,924	371,715	868,639
Depreciable Capital Assets, Net	2,920,974	10,628,385	13,549,359
<i>Total Assets</i>	<u>9,948,005</u>	<u>14,165,976</u>	<u>24,113,981</u>
Deferred Outflows of Resources			
Pension	599,083	633,771	1,232,854
Liabilities			
Accounts Payable	53,640	72,720	126,360
Accrued Wages Payable	36,955	37,077	74,032
Intergovernmental Payable	34,153	19,933	54,086
Accrued Interest Payable	4,264	33,181	37,445
Customer Deposits Payable	0	242,886	242,886
Long-Term Liabilities:			
Due Within One Year	110,380	170,888	281,268
Due In More Than One Year:			
Net Pension Liability (See Note 11)	2,136,524	1,600,724	3,737,248
Other Amounts Due in More than One Year	289,420	2,679,611	2,969,031
<i>Total Liabilities</i>	<u>2,665,336</u>	<u>4,857,020</u>	<u>7,522,356</u>
Deferred Inflows of Resources			
Property Taxes	522,333	0	522,333
Pension	7,797	9,526	17,323
<i>Total Deferred Inflows of Resources</i>	<u>530,130</u>	<u>9,526</u>	<u>539,656</u>
Net Position			
Net Investment in Capital Assets	3,151,984	8,249,219	11,401,203
Restricted for:			
Street Construction	680,927	0	680,927
Police Protection	12,257	0	12,257
Fire Protection	110,822	0	110,822
Community Development	271,939	0	271,939
Capital Projects	2,451,679	0	2,451,679
Cemetery	79,085	0	79,085
Cemetery Perpetual Care	251,268	0	251,268
Unclaimed Monies	3,787	0	3,787
Other Purposes	412,652	0	412,652
Unrestricted (Deficit)	(74,778)	1,683,982	1,609,204
<i>Total Net Position</i>	<u>\$7,351,622</u>	<u>\$9,933,201</u>	<u>\$17,284,823</u>

See accompanying notes to the basic financial statements

City of Wellston, Ohio
Statement of Activities
For the Year Ended December 31, 2017

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions
Governmental Activities				
General Government	\$896,870	\$142,385	\$0	\$0
Security of Persons and Property:				
Police	1,143,392	37,645	62	0
Fire	556,352	124,142	62,691	0
Transportation	530,186	0	320,347	0
Leisure Time Activities	33,242	0		0
Public Health Services	68,806	22,732	12,593	0
Community Environment	83,482	16,500	3,257	0
Interest and Fiscal Charges	9,922	0	0	0
<i>Total Governmental Activities</i>	<u>3,322,252</u>	<u>343,404</u>	<u>398,950</u>	<u>0</u>
Business-Type Activities				
Water	1,594,448	1,569,387	0	315,694
Sewer	1,079,270	1,134,370	0	0
Garbage	336,435	347,541	0	0
<i>Total Business-Type Activities</i>	<u>3,010,153</u>	<u>3,051,298</u>	<u>0</u>	<u>315,694</u>
<i>Totals</i>	<u><u>\$6,332,405</u></u>	<u><u>\$3,394,702</u></u>	<u><u>\$398,950</u></u>	<u><u>\$315,694</u></u>

General Revenues

Property Taxes Levied for:

 General Purposes

 Fire Protection

 Cemetery

 Streets

Income Taxes Levied for General Purposes

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Position

Net Position Beginning of Year (Restated - See Note 3)

Net Position End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
(\$754,485)	\$0	(\$754,485)
(1,105,685)	0	(1,105,685)
(369,519)	0	(369,519)
(209,839)	0	(209,839)
(33,242)	0	(33,242)
(33,481)	0	(33,481)
(63,725)	0	(63,725)
(9,922)	0	(9,922)
<u>(2,579,898)</u>	<u>0</u>	<u>(2,579,898)</u>
0	290,633	290,633
0	55,100	55,100
0	11,106	11,106
<u>0</u>	<u>356,839</u>	<u>356,839</u>
<u>(2,579,898)</u>	<u>356,839</u>	<u>(2,223,059)</u>
163,851	0	163,851
254,392	0	254,392
52,988	0	52,988
115,242	0	115,242
1,276,065	0	1,276,065
414,097	0	414,097
57,078	0	57,078
95,654	94,674	190,328
<u>2,429,367</u>	<u>94,674</u>	<u>2,524,041</u>
(150,531)	451,513	300,982
<u>7,502,153</u>	<u>9,481,688</u>	<u>16,983,841</u>
<u><u>\$7,351,622</u></u>	<u><u>\$9,933,201</u></u>	<u><u>\$17,284,823</u></u>

City of Wellston, Ohio
Balance Sheet
Governmental Funds
December 31, 2017

	General	Fire Levy	Street	Permanent Investment	Other Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$1,017,618	\$58,860	\$266,211	\$0	\$1,085,870
Restricted Cash and Cash Equivalents	3,787	0	0	0	0
Investments	0	0	0	2,433,835	198,448
Receivables:					
Interest	1,221	0	0	0	127
Income Tax	320,914	0	0	0	0
Property Taxes	228,396	297,027	0	0	198,018
Intergovernmental	55,695	22,539	116,594	0	51,742
Permissive MVL Taxes	0	0	6,295	0	0
Prepaid Items	22,962	476	1,969	0	0
Loans	0	0	0	0	115,156
Interfund	4,447	0	0	0	0
Materials and Supplies Inventory	0	0	26,347	0	0
<i>Total Assets</i>	<u>\$1,655,040</u>	<u>\$378,902</u>	<u>\$417,416</u>	<u>\$2,433,835</u>	<u>\$1,649,361</u>
Liabilities					
Accounts Payable	19,279	10,641	10,907	0	12,813
Accrued Wages Payable	26,910	5,524	4,521	0	0
Interfund Payable	0	0	0	0	4,447
Intergovernmental Payable	24,614	5,316	2,023	0	2,200
<i>Total Liabilities</i>	<u>70,803</u>	<u>21,481</u>	<u>17,451</u>	<u>0</u>	<u>19,460</u>
Deferred Inflows of Resources					
Property Taxes	164,905	214,457	0	0	142,971
Unavailable Revenue	103,395	97,609	77,335	0	69,623
<i>Total Deferred Inflows of Resources</i>	<u>268,300</u>	<u>312,066</u>	<u>77,335</u>	<u>0</u>	<u>212,594</u>
Fund Balances					
Nonspendable for:					
Cemetery Perpetual Care	0	0	0	0	251,268
Inventories	0	0	26,347	0	0
Prepaid Items	22,962	476	1,969	0	0
Unclaimed Monies	3,787	0	0	0	0
Restricted for:					
Street Construction	0	0	294,314	0	253,996
Police Protection	0	0	0	0	12,257
Fire Protection	0	44,879	0	0	0
Cemetery	0	0	0	0	57,394
Community Development	0	0	0	0	271,939
Capital Projects	0	0	0	2,433,835	429,014
Committed	3,643	0	0	0	130,802
Assigned to:					
Capital Improvements	0	0	0	0	13,705
Purchases on Order	14,113	0	0	0	0
Subsequent Year's Appropriations	248,061	0	0	0	0
Unassigned (Deficit)	1,023,371	0	0	0	(3,068)
<i>Total Fund Balances</i>	<u>1,315,937</u>	<u>45,355</u>	<u>322,630</u>	<u>2,433,835</u>	<u>1,417,307</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$1,655,040</u>	<u>\$378,902</u>	<u>\$417,416</u>	<u>\$2,433,835</u>	<u>\$1,649,361</u>

See accompanying notes to the basic financial statements

City of Wellston, Ohio
*Reconciliation of Total Governmental Fund Balances
to Net Position of Governmental Activities
December 31, 2017*

	Total Governmental Fund Balances	\$5,535,064
Total Governmental Funds	<i>Amounts reported for governmental activities in the statement of net position are different because:</i>	
\$2,428,559	Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,417,898
3,787		
2,632,283		
1,348	Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds:	
320,914	Delinquent Property Taxes	201,108
723,441	Intergovernmental Revenues	<u>146,854</u>
246,570		347,962
6,295		
25,407	The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:	
115,156	Deferred Outflows - Pension	599,083
4,447	Deferred Inflows - Pension	(7,797)
26,347	Net Pension Liability	<u>(2,136,524)</u>
<u>\$6,534,554</u>		(1,545,238)
53,640	Some liabilities are not due and payable in the current period and therefore are not reported in the funds:	
36,955	Long-Term Loans Payable	(265,914)
4,447	Compensated Absences	(133,886)
34,153	Accrued Interest Payable	<u>(4,264)</u>
<u>129,195</u>		<u>(404,064)</u>
	Net Position of Governmental Activities	<u>\$7,351,622</u>
522,333		
<u>347,962</u>		
<u>870,295</u>		
251,268		
26,347		
25,407		
3,787		
548,310		
12,257		
44,879		
57,394		
271,939		
2,862,849		
134,445		
13,705		
14,113		
248,061		
<u>1,020,303</u>		
5,535,064		
<u>\$6,534,554</u>		

City of Wellston, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2017

	General	Fire Levy	Street	Permant Improvements	Other Governmental Funds
Revenues					
Property Taxes	\$159,764	\$251,600	\$0	\$0	\$166,368
Income Taxes	1,276,065	0	0	0	0
Permissive Motor Vehicle License Tax	0	0	77,627	0	0
Intergovernmental	145,986	62,433	235,565	0	283,692
Charges for Services	19,748	124,142	0	0	22,732
Fines and Forfeitures	60,756	0	0	0	9,048
Licenses and Permits	6,620	0	0	0	0
Investment Earnings	57,078	0	0	0	7,111
Rent	83,858	0	0	0	16,500
Contributions and Donations	0	0	0	0	62
Miscellaneous	50,570	8,951	6,850	0	29,283
<i>Total Revenues</i>	<u>1,860,445</u>	<u>447,126</u>	<u>320,042</u>	<u>0</u>	<u>534,796</u>
Expenditures					
Current:					
General Government	730,392	0	0	0	107,176
Security of Persons and Property:					
Police	972,385	0	0	0	46,966
Fire	0	425,623	0	0	5,030
Transportation	0	0	333,406	0	105,041
Public Health Services	0	0	0	0	58,806
Community Environment	0	0	0	0	58,970
Capital Outlay	0	0	0	0	10,000
Principal Retirement	0	2,686	0	0	47,193
Interest and Fiscal Charges	0	3,624	0	0	7,151
<i>Total Expenditures</i>	<u>1,702,777</u>	<u>431,933</u>	<u>333,406</u>	<u>0</u>	<u>446,333</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	157,668	15,193	(13,364)	0	88,463
<i>Fund Balances Beginning of Year (Restated - See Note 3)</i>	<u>1,158,269</u>	<u>30,162</u>	<u>335,994</u>	<u>2,433,835</u>	<u>1,328,844</u>
<i>Fund Balances End of Year</i>	<u><u>\$1,315,937</u></u>	<u><u>\$45,355</u></u>	<u><u>\$322,630</u></u>	<u><u>\$2,433,835</u></u>	<u><u>\$1,417,307</u></u>

See accompanying notes to the basic financial statements

City of Wellston, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Year Ended December 31, 2017*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property Taxes	\$149,232	\$149,232	\$159,764	\$10,532
Income Taxes	1,300,000	1,300,000	1,253,549	(46,451)
Intergovernmental	120,568	120,568	145,986	25,418
Charges for Services	15,800	15,800	19,748	3,948
Licenses and Permits	4,050	4,050	6,620	2,570
Fines and Forfeitures	52,100	60,100	58,955	(1,145)
Investment Earnings	52,400	52,400	55,758	3,358
Rent	71,600	71,600	83,858	12,258
Miscellaneous	0	0	50,570	50,570
<i>Total Revenues</i>	<u>1,765,750</u>	<u>1,773,750</u>	<u>1,834,808</u>	<u>61,058</u>
Expenditures				
Current:				
General Government	963,751	1,101,784	776,727	325,057
Security of Persons and Property:				
Police	<u>995,080</u>	<u>1,015,047</u>	<u>974,330</u>	<u>40,717</u>
<i>Total Expenditures</i>	<u>1,958,831</u>	<u>2,116,831</u>	<u>1,751,057</u>	<u>365,774</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(193,081)	(343,081)	83,751	426,832
<i>Fund Balance at Beginning of Year</i>	896,663	896,663	896,663	0
Prior Year Encumbrances Appropriated	<u>13,323</u>	<u>13,323</u>	<u>13,323</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u><u>\$716,905</u></u>	<u><u>\$566,905</u></u>	<u><u>\$993,737</u></u>	<u><u>\$426,832</u></u>

See accompanying notes to the basic financial statements

City of Wellston, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
Fire Levy Fund
For the Year Ended December 31, 2017*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$238,926	\$238,926	\$251,600	\$12,674
Intergovernmental	123,374	123,374	54,933	(68,441)
Charges for Services	31,400	31,400	124,142	92,742
Miscellaneous	0	0	8,951	8,951
<i>Total Revenues</i>	393,700	393,700	439,626	45,926
Expenditures				
Current:				
Security of Persons and Property:				
Fire	386,470	437,270	430,079	7,191
Debt Service:				
Principal Retirement	2,686	2,686	2,686	0
Interest and Fiscal Charges	3,624	3,624	3,624	0
<i>Total Expenditures</i>	392,780	443,580	436,389	7,191
<i>Excess of Revenues Over (Under) Expenditures</i>	920	(49,880)	3,237	53,117
<i>Fund Balance at Beginning of Year</i>	50,237	50,237	50,237	0
Prior Year Encumbrances Appropriated	1,514	1,514	1,514	0
<i>Fund Balance at End of Year</i>	\$52,671	\$1,871	\$54,988	\$53,117

See accompanying notes to the basic financial statements

City of Wellston, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
Street Fund
For the Year Ended December 31, 2017*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Permissive Motor Vehicle Taxes	\$75,000	\$75,000	\$77,829	\$2,829
Intergovernmental	230,600	230,600	233,180	2,580
Miscellaneous	<u>0</u>	<u>0</u>	<u>6,850</u>	<u>6,850</u>
<i>Total Revenues</i>	305,600	305,600	317,859	12,259
Expenditures				
Current:				
Transportation	<u>328,705</u>	<u>380,696</u>	<u>344,762</u>	<u>35,934</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(23,105)</u>	<u>(75,096)</u>	<u>(26,903)</u>	<u>48,193</u>
<i>Fund Balance at Beginning of Year</i>	263,657	263,657	263,657	0
Prior Year Encumbrances Appropriated	<u>17,777</u>	<u>17,777</u>	<u>17,777</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u><u>\$258,329</u></u>	<u><u>\$206,338</u></u>	<u><u>\$254,531</u></u>	<u><u>\$48,193</u></u>

See accompanying notes to the basic financial statements

City of Wellston, Ohio
Statement of Fund Net Position
Enterprise Funds
December 31, 2017

	Water	Sewer	Garbage	Total Enterprise Funds
Assets				
Current:				
Equity in Pooled Cash and Cash Equivalents	\$1,101,079	\$1,132,317	\$274,606	\$2,508,002
Accounts Receivable	110,906	115,949	27,183	254,038
Intergovernmental Receivable	120,220	0	0	120,220
Prepaid Items	7,629	6,629	3,639	17,897
Materials and Supplies Inventory	22,833	0	0	22,833
Restricted Assets:				
Customer Deposits - Cash and Cash Equivalents	242,886	0	0	242,886
<i>Total Current Assets</i>	<u>1,605,553</u>	<u>1,254,895</u>	<u>305,428</u>	<u>3,165,876</u>
Noncurrent:				
Non-Depreciable Capital Assets	152,915	218,800	0	371,715
Depreciable Capital Assets, Net	5,334,892	5,217,125	76,368	10,628,385
<i>Total Assets</i>	<u>7,093,360</u>	<u>6,690,820</u>	<u>381,796</u>	<u>14,165,976</u>
Deferred Outflows of Resources				
Pension	344,241	241,818	78,341	664,400
Liabilities				
Current:				
Accounts Payable	36,268	25,101	11,351	72,720
Accrued Wages Payable	21,109	11,234	4,734	37,077
Intergovernmental Payable	9,445	8,502	1,986	19,933
Accrued Interest Payable	4,681	28,500	0	33,181
OPWC Loans Payable	3,763	3,032	0	6,795
OWDA Loans Payable	32,671	0	0	32,671
Compensated Absences Payable	15,204	32,510	3,708	51,422
Revenue Bonds	0	57,000	0	57,000
General Obligation Bonds Payable	0	23,000	0	23,000
Customer Deposits Payable for Restricted Assets	242,886	0	0	242,886
<i>Total Current Liabilities</i>	<u>366,027</u>	<u>188,879</u>	<u>21,779</u>	<u>576,685</u>
Long-Term:				
OPWC Loans Payable	45,157	6,064	0	51,221
OWDA Loans Payable	950,194	0	0	950,194
Compensated Absences Payable	14,869	28,146	5,181	48,196
General Obligation Bonds Payable	0	465,000	0	465,000
Revenue Bonds Payable	0	1,165,000	0	1,165,000
Net Pension Liability	860,091	549,502	191,131	1,600,724
<i>Total Long-Term Liabilities</i>	<u>1,870,311</u>	<u>2,213,712</u>	<u>196,312</u>	<u>4,280,335</u>
<i>Total Liabilities</i>	<u>2,236,338</u>	<u>2,402,591</u>	<u>218,091</u>	<u>4,857,020</u>
Deferred Inflows of Resources				
Pension	5,735	21,760	12,660	40,155
Net Position				
Net Investment in Capital Assets	4,456,020	3,716,831	76,368	8,249,219
Unrestricted	739,508	791,456	153,018	1,683,982
<i>Total Net Position</i>	<u>\$5,195,528</u>	<u>\$4,508,287</u>	<u>\$229,386</u>	<u>\$9,933,201</u>

See accompanying notes to the basic financial statements

City of Wellston, Ohio
Statement of Revenues, Expenses and Changes in Fund Net Position
Enterprise Funds
For the Year Ended December 31, 2017

	Water	Sewer	Garbage	Total Enterprise Funds
Operating Revenues				
Charges for Services	\$1,569,387	\$1,134,370	\$347,541	\$3,051,298
Miscellaneous	79,838	10,174	4,662	94,674
<i>Total Operating Revenues</i>	<u>1,649,225</u>	<u>1,144,544</u>	<u>352,203</u>	<u>3,145,972</u>
Operating Expenses				
Personal Services	500,544	315,639	123,314	939,497
Fringe Benefits	300,497	235,580	71,606	607,683
Contractual Services	330,855	149,556	100,385	580,796
Materials and Supplies	257,695	151,452	27,203	436,350
Depreciation	194,921	139,143	13,885	347,949
Other	470	0	0	470
<i>Total Operating Expenses</i>	<u>1,584,982</u>	<u>991,370</u>	<u>336,393</u>	<u>2,912,745</u>
<i>Operating Income</i>	<u>64,243</u>	<u>153,174</u>	<u>15,810</u>	<u>233,227</u>
Non-Operating Revenues (Expenses)				
Capital Grants	315,694	0	0	315,694
Interest and Fiscal Charges	(9,466)	(87,900)	(42)	(97,408)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>306,228</u>	<u>(87,900)</u>	<u>(42)</u>	<u>218,286</u>
<i>Change in Net Position</i>	370,471	65,274	15,768	451,513
<i>Net Position Beginning of Year (Restated - See Note 3)</i>	<u>4,825,057</u>	<u>4,443,013</u>	<u>213,618</u>	<u>9,481,688</u>
<i>Net Position End of Year</i>	<u><u>\$5,195,528</u></u>	<u><u>\$4,508,287</u></u>	<u><u>\$229,386</u></u>	<u><u>\$9,933,201</u></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, 2017

	Water	Sewer	Garbage	Total Enterprise Funds
Increase (Decrease) in Cash and Cash Equivalents				
Cash Flows from Operating Activities				
Cash Received from Customers	\$1,587,090	\$1,138,900	\$350,235	\$3,076,225
Cash Payments for Employee Services and Benefits	(702,484)	(461,406)	(189,988)	(1,353,878)
Cash Payments for Goods and Services	(654,804)	(292,374)	(122,893)	(1,070,071)
Utility Deposits Received	43,513	0	0	43,513
Utility Deposits Returned	(33,074)	0	0	(33,074)
Other Operating Revenues	79,838	10,174	4,662	94,674
Other Operating Expenses	(470)	0	0	(470)
<i>Net Cash Provided by Operating Activities</i>	<u>319,609</u>	<u>395,294</u>	<u>42,016</u>	<u>756,919</u>
Cash Flows from Capital and Related Financing Activities				
Capital Grants Received	195,474	0	0	195,474
Proceeds from OWDA Loans	350,871	0	0	350,871
Payments for Capital Acquisitions	(425,251)	(28,451)	0	(453,702)
Principal Paid on General Obligation Bonds	0	(21,000)	0	(21,000)
Principal Paid on Revenue Bonds	0	(54,000)	0	(54,000)
Principal Paid on OPWC Loans	(3,762)	(3,032)	0	(6,794)
Principal Paid on OWDA Loans	(224,336)	0	0	(224,336)
Principal Paid on Other Loans	0	0	(28,617)	(28,617)
Interest Paid on General Obligation Bonds	0	(25,400)	0	(25,400)
Interest Paid on Revenue Bonds	0	(63,750)	0	(63,750)
Interest Paid on OWDA Loans	(8,752)	0	0	(8,752)
Interest Paid on Other Loans	0	0	(108)	(108)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(115,756)</u>	<u>(195,633)</u>	<u>(28,725)</u>	<u>(340,114)</u>
<i>Net Increase in Cash and Cash Equivalents</i>	203,853	199,661	13,291	416,805
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>1,140,112</u>	<u>932,656</u>	<u>261,315</u>	<u>2,334,083</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$1,343,965</u>	<u>\$1,132,317</u>	<u>\$274,606</u>	<u>\$2,750,888</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating Income	\$64,243	\$153,174	\$15,810	\$233,227
Adjustments:				
Depreciation	194,921	139,143	13,885	347,949
Changes in Assets and Liabilities:				
Decrease in Accounts Receivable	17,703	4,530	2,694	24,927
Increase in Prepaid Items	(1,377)	(1,301)	(1,599)	(4,277)
Increase in Materials and Supplies Inventory	(2,400)	0	0	(2,400)
Decrease in Deferred Outflows - Pension	110,777	77,577	25,190	213,544
Increase (Decrease) in Accounts Payable	(7,959)	9,156	4,695	5,892
Increase in Accrued Wages Payable	1,085	296	205	1,586
Decrease in Contracts Payable	(53,877)	0	0	(53,877)
Decrease in Intergovernmental Payable	(6,090)	(1,985)	(890)	(8,965)
Increase in Customer Deposits Payable	10,439	0	0	10,439
Increase (Decrease) in Compensated Absences Payable	(15,267)	25,467	(9,866)	334
Increase in Net Pension Liability	19,254	12,302	4,279	35,835
Decrease in Deferred Inflows - Pension	(11,843)	(23,065)	(12,387)	(47,295)
<i>Net Cash Provided by Operating Activities</i>	<u>\$319,609</u>	<u>\$395,294</u>	<u>\$42,016</u>	<u>\$756,919</u>

See accompanying notes to the basic financial statements

City of Wellston, Ohio
Statement of Assets and Liabilities
Agency Funds
December 31, 2017

Assets

Equity in Pooled Cash and Cash Equivalents	<u><u>\$30,026</u></u>
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Liabilities

Due to Others	<u><u>\$30,026</u></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, 2017

NOTE 1 - REPORTING ENTITY

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

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

Reporting Entity

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Wellston have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City’s accounting policies are described below.

A. Basis of Presentation

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Government-wide Financial Statements

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

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

Fire Levy Fund - The Fire Levy Special Revenue Fund is used to account for property tax revenues and fire protection contract revenues for the operation of the Wellston Fire Department.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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.

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

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

Proprietary Funds

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

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

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

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

Fiduciary Funds

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

C. Measurement Focus

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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 position. The statement of changes in revenues, expenses, and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. 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 modified accrual basis of accounting arise in the recognition of revenue, in the recording of deferred outflows/inflows of resources, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

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

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

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, pension, and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2017, but which were levied to finance 2018 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities found on page 19.

Unearned Revenue

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

Expenses/Expenditures

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

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

E. Budgetary Process

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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

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

F. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds, except for the Permanent Investment Capital Projects Fund and a portion of the Cemetery Perpetual Care Permanent Fund, are maintained in this pool. Interest in the pool is presented as “equity in pooled cash and cash equivalents.”

During 2017, investments were limited to certificates of deposit, which are reported at cost.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the General Fund during 2017 amounted to \$57,078, which includes \$49,166 assigned from other City funds.

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

G. Receivables and Payables

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

H. Interfund Balances

In general, 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 position.

I. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets in the enterprise funds represent water customer deposits. Unclaimed monies that are required to be held for five years before they may be utilized by the City are reported as restricted.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

J. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed/expended when used. Inventory consists of materials and supplies held for consumption and donated and purchased food held for resale.

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 position 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 position and in the funds.

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

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Improvements other than Buildings	20 years	10 years
Buildings and Improvements	20-40 years	20-40 years
Equipment	15 years	15 years
Infrastructure	15 years	70 years
Vehicles	5-25 years	5-25 years

L. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

The City records a liability for accumulated unused vacation time when earned for all employees after their probation is over. The City records a liability for accumulated unused sick leave for employees after thirteen and one half years of service.

M. Accrued Liabilities and Long-Term Obligations

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

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

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

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

N. Fund Balance

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

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

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

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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

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

Unassigned Unassigned fund balance is the residual classification for the general fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

O. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets 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 position is reported as restricted when there are limitations imposed on its use either through the constitutional provisions or through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for recreation and certain capital outlays.

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

P. Interfund Transactions

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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

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

Q. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

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

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION

For 2017, the City implemented the Governmental Accounting Standards Board's (GASB) *Implementation Guide No. 2016-1*. These changes were incorporated in the City's 2017 financial statements; however, there was no effect on beginning net position/fund balance.

During 2017, fund classification changes occurred in some governmental funds. The CHIS and Harvey Wells Funds were combined with the General Fund. The State Highway Fund was combined with the Street Fund. Police Department Special was combined with the Dare Fund. Also, DUI Enforcement was combined with the Drug Enforcement Fund. December 31, 2016 ending governmental fund balance was

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

\$5,287,104. There was no change to the overall governmental fund balance. The classification changes resulted in the following beginning balance changes:

	General Fund	Street Fund	Dare Fund
Fund Balance December 31, 2016	\$1,158,067	\$304,669	\$147
Classification Changes	202	31,325	1,447
Fund Balance December 31, 2017	\$1,158,269	\$335,994	\$1,594

For 2016, accounts receivable were overstated due to utility delinquencies being overstated. 2016 compensated absences were also overstated. These issues resulted in the following restatements for the year ended December 31, 2016.

	Water Fund	Sewer Fund	Garbage Fund	Total Enterprise
Net Position December 31, 2016	\$4,900,560	\$4,498,566	\$233,806	\$9,632,932
Adjustments:				
Compensated Absences	12,545	6,435	5,826	24,806
Accounts Receivable	(88,048)	(61,988)	(26,014)	(176,050)
Restated Net Position December 31, 2016	\$4,825,057	\$4,443,013	\$213,618	\$9,481,688

NOTE 4 - FUND DEFICITS

The Recreation Special Revenue Fund had a deficit fund balance of \$3,068 as of December 31, 2017. This deficit is due to a negative cash balance, combined with adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis, as provided by law, is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statements of Revenues, Expenditures and Changes in Fund Balances Budget and Actual (Budget Basis) is presented for the General Fund and the major special revenue funds 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).

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Outstanding year end encumbrances are treated as expenditures (budget basis) rather than as committed or assigned fund balance (GAAP basis).
4. Unrecorded cash and interest is reported on the balance sheet (GAAP) but not on the budgetary basis.
5. Prepaid items are reported on the balance sheet (GAAP basis), but not on the budgetary basis.

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

	General	Fire Levy	Street
GAAP Basis	\$157,668	\$15,193	(\$13,364)
Net Adjustment for Revenue Accruals	(24,986)	(7,500)	(2,183)
Net Adjustment for Expenditure Accruals	(5,285)	(548)	1,091
Beginning of Year:			
Unreported Cash	565	0	0
Prepaid Items	6,217	440	1,202
End of Year:			
Unreported Cash	(1,216)	0	0
Prepaid Items	(22,962)	(476)	(1,969)
Encumbrances	(26,250)	(3,872)	(11,680)
Budget Basis	\$83,751	\$3,237	(\$26,903)

NOTE 6 - DEPOSITS AND INVESTMENTS

Monies held by the City are classified by State statute into three.

Active deposits are public monies determined to be necessary to meet current demands upon the City treasury. Active 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.

Interim monies held by the City can be deposited or invested in the following securities:

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

1. United States Treasury bills, bonds notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, and with certain limitation bonds and other obligations of political subdivisions of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided 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 the term of the agreement must not exceed thirty days.

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.

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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$5,146,606 of the City's bank balance of \$7,882,441 was exposed to custodial credit risk because those deposits were uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the Federal Deposit Insurance Corporation. The City's financial institution was approved for a reduced collateral rate of 102 percent through the Ohio Pooled Collateral System.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or be protected by:

Eligible securities pledged to the City and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

One of the city's two financial institutions were in the process of joining OPCS; however at December 31, 2017, the financial institution still maintained its own 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 105 percent of the deposits being secured.

NOTE 7 - PROPERTY TAXES

A. Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2017 for real and public utility property taxes represents collections of 2016 taxes.

2017 real property taxes are levied after October 1, 2017, on the assessed value as of January 1, 2017, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2017 real property taxes are collected in and intended to finance 2018.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20.

Under certain circumstances, State statute permits later payment dates to be established. Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2017 public utility property taxes which became a lien December 31, 2016, are levied after October 1, 2017, and are collected in 2018 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2017, was \$10.80 per \$1,000 of assessed value. The assessed values of real property and public utility tangible property upon which 2017 property tax receipts were based are as follows:

Real Property	\$56,849,440
Public Utility Real Property	32,540
Public Utility Personal Property	<u>4,017,180</u>
Total	<u>\$60,899,160</u>

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property and public utility taxes and outstanding delinquencies which are measurable as of December 31, 2017, and for which there is an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2017 operations is offset to deferred inflows of resources - property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources - unavailable revenue.

B. Tax Abatement

Pursuant to Ohio Revised Code Chapter 5709, the City established two Enterprise Zone property tax abatements to encourage new investment. Abatements are obtained through application by the property owner, including proof that the improvements have been made, and equal a percent of the additional property tax resulting from the increase in assessed value as a result of the improvement. The amount of the abatement is deducted from the recipient's tax bill.

The City of Wellston has entered into two enterprise zone agreements with General Mills. One agreement is for the construction of a frozen distribution warehouse. The second agreement is for the construction of warehouse space. These abatement agreements are for 75 percent of the expansion value in exchange for job creation. In the event of default of the agreement terms, the City may require the repayment of the amount of taxes that would have been payable had the property not been exempted from taxation under this agreement.

Below is the information relevant to the disclosure of those programs for the year ended December 31, 2017.

Tax Abatement Program	Amount of 2017 Taxes Abated
<i>Enterprise Zone Tax Exemptions</i>	
General Mills Frozen Distribution Warehouse	\$221,710
General Mills Warehouse Space	98,617

NOTE 8 - INCOME TAX

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

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

Income tax proceeds are to be used for the purposes of general municipal operations, maintenance of facilities, new equipment, extension and enlargement of municipal services and facilities and capital improvements of the City of Wellston. In 2017, all proceeds were receipted into the General Fund.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 9 - RECEIVABLES

Receivables at December 31, 2017, consisted of property and income taxes; accrued interest; loans; interfund receivables; intergovernmental receivables arising from grants, entitlements, and shared revenues; and utility accounts. All receivables are considered fully collectible. Delinquent utility accounts receivable (billings for user charged services) are certified and collected as special assessments, subject to foreclosure for nonpayment. The financial statements reflect loans receivable of \$115,156 for principal owed to the City for CDBG and UDAG revolving loan monies loaned to businesses for improvement and expansion efforts. All receivables are expected to be collected within one year, with the exception of delinquent property taxes deemed collectible by the County Auditor and recorded as a receivable in the amount of \$201,107, as well as \$115,156 of the outstanding CDBG and UDAG revolving loan receivables.

A summary of intergovernmental receivables follows:

<u>Governmental Activities:</u>	
Local Government Subsidies	\$42,510
Gasoline Tax	91,863
Motor Vehicle License Tax	24,731
Homestead and Rollback	36,629
Sales Tax	37,099
Fire Grant	7,500
Recreation Grant	4,550
Miscellaneous	<u>1,688</u>
Total Governmental Activities	246,570
 <u>Business-Type Activities:</u>	
ARC Grant	<u>120,220</u>
 Total Intergovernmental Receivable	 <u><u>\$366,790</u></u>

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017, was as follows:

	<u>Balance</u> <u>12/31/2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2017</u>
<u>Governmental Activities:</u>				
Non-Depreciable Capital Assets:				
Land	\$472,380	\$0	\$0	\$472,380
Construction in Progress	399,265	14,771	(389,492)	24,544
Total Non-Depreciable Capital Assets	<u>871,645</u>	<u>14,771</u>	<u>(389,492)</u>	<u>496,924</u>
Depreciable Capital Assets:				
Improvements Other than Buildings	620,277	0	0	620,277
Buildings and Improvements	1,301,059	389,492	0	1,690,551
Equipment	441,662	0	0	441,662
Infrastructure	1,424,779	0	0	1,424,779
Vehicles	1,265,974	72,328	0	1,338,302
Total Depreciable Capital Assets	<u>5,053,751</u>	<u>461,820</u>	<u>0</u>	<u>5,515,571</u>
Accumulated Depreciation:				
Improvements Other than Buildings	375,354	28,637	0	403,991
Buildings and Improvements	435,357	34,596	0	469,953
Equipment	248,441	18,556	0	266,997
Infrastructure	529,388	80,845	0	610,233
Vehicles	717,330	126,093	0	843,423
Total Accumulated Depreciation	<u>2,305,870</u>	<u>288,727</u> *	<u>0</u>	<u>2,594,597</u>
Total Depreciable Capital Assets, Net	<u>2,747,881</u>	<u>173,093</u>	<u>0</u>	<u>2,920,974</u>
Governmental Activities Capital Assets, Net	<u>\$3,619,526</u>	<u>\$187,864</u>	<u>(\$389,492)</u>	<u>\$3,417,898</u>

*Depreciation expense was charged to governmental activities as follows:

<u>Governmental Activities:</u>	
Security of Persons and Property- Police	\$10,442
Security of Persons and Property- Fire	99,976
Transportation	120,555
Leisure Time Activities	33,242
Community Environment	24,512
Total Depreciation Expense	<u>\$288,727</u>

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

	Balance 12/31/2016	Additions	Reductions	Balance 12/31/2017
<u>Business - Type Activities:</u>				
Non-Depreciable Capital Assets:				
Land	\$263,500	\$0	\$0	\$263,500
Construction in Progress	53,877	396,799	342,461	108,215
Total Non-Depreciable Capital Assets	<u>317,377</u>	<u>396,799</u>	<u>342,461</u>	<u>371,715</u>
Depreciable Capital Assets:				
Improvements Other Than Buildings	63,848	0	0	63,848
Buildings and Improvements	5,752,465	0	0	5,752,465
Equipment	1,444,303	0	0	1,444,303
Infrastructure	11,162,423	342,461	0	11,504,884
Vehicles	711,375	56,903	0	768,278
Total Depreciable Capital Assets	<u>19,134,414</u>	<u>399,364</u>	<u>0</u>	<u>19,533,778</u>
Accumulated Depreciation:				
Improvements Other Than Buildings	57,572	1,141	0	58,713
Buildings and Improvements	2,828,800	124,197	0	2,952,997
Equipment	1,215,616	32,989	0	1,248,605
Infrastructure	3,958,808	156,324	0	4,115,132
Vehicles	496,648	33,298	0	529,946
Total Accumulated Depreciation	<u>8,557,444</u>	<u>347,949</u>	<u>0</u>	<u>8,905,393</u>
Total Depreciable Capital Assets, Net	<u>10,576,970</u>	<u>51,415</u>	<u>0</u>	<u>10,628,385</u>
Business - Type Activities Capital Assets, Net	<u>\$10,894,347</u>	<u>\$448,214</u>	<u>\$342,461</u>	<u>\$11,000,100</u>

NOTE 11 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the City’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the City’s obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees’ services in exchange for compensation including pension.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information, including requirements for reduced and unreduced benefits):

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

	State and Local
2017 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
 2017 Actual Contribution Rates	
Employer:	
Pension	13.0 %
Post-employment Health Care Benefits	1.0
Total Employer	14.0 %
 Employee	 10.0 %

- * This rate is determined by OPERS' Board and has no maximum rate established by ORC.
- ** This rate is also determined by OPERS' Board, but is limited by ORC to not more than 2 percent greater than the Public Safety rate.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$177,160 for 2017. Of this amount, \$22,808 is reported as an intergovernmental payable.

Plan Description – Ohio Police & Fire Pension Fund (OP&F)

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OP&F may retire and receive a lifetime monthly pension. OP&F offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit. (See OP&F CAFR referenced above for additional information, including requirements for Deferred Retirement Option Plan provisions and reduced and unreduced benefits.)

Under normal service retirement, retired members who are at least 55 years old and have been receiving OP&F benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, and members whose pension benefit became effective on or after July 1, 2013, will receive a COLA equal to a percentage of the member's base pension benefit where the percentage is the lesser of three percent or the percentage increase in the consumer price index, if any, over the 12 month period that ends on the thirtieth day of September of the immediately preceding year, rounded to the nearest one-tenth of one percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	Police	Firefighters
2017 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 2017 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %
 Employee	 12.25 %	 12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$91,613 for 2017. Of this amount, \$13,900 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for OPERS was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2016, and was determined by rolling forward the total pension liability as of January 1, 2016, to December 31, 2016. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

	<u>OPERS</u>	<u>OP&F</u>	
Proportion of the Net Pension Liability:			
Current Measurement Date	0.010521%	0.0212840%	
Prior Measurement Date	<u>0.009766%</u>	<u>0.0210600%</u>	
Change in Proportionate Share	<u>0.0007550%</u>	<u>0.0002240%</u>	
			<u>Total</u>
Proportionate Share of the Net Pension Liability	\$2,389,141	\$1,348,107	\$3,737,248
Pension Expense	\$522,141	\$166,794	\$688,935

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$3,238	\$381	\$3,619
Changes of assumptions	378,947	0	378,947
Net difference between projected and actual earnings on pension plan investments	355,798	131,098	486,896
Changes in proportion and differences between City contributions and proportionate share of contributions	73,506	21,113	94,619
City contributions subsequent to the measurement date	<u>177,160</u>	<u>91,613</u>	<u>268,773</u>
Total Deferred Outflows of Resources	<u>\$988,649</u>	<u>\$244,205</u>	<u>\$1,232,854</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$14,219	\$3,104	\$17,323
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>14,219</u>	<u>0</u>	<u>0</u>
Total Deferred Inflows of Resources	<u>\$28,438</u>	<u>\$3,104</u>	<u>\$17,323</u>

\$268,773 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Year Ending December 31:	OPERS	OP&F	Total
2018	\$337,325	\$54,357	\$391,682
2019	341,264	54,357	395,621
2020	129,110	42,476	171,586
2021	(10,429)	(4,327)	(14,756)
2022	0	2,418	2,418
Thereafter	0	207	207
Total	<u>\$797,270</u>	<u>\$149,488</u>	<u>\$946,758</u>

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2016, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67. In 2016, the OPERS' actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.0 percent down to 7.5 percent, for the defined benefit investments. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of December 31, 2016, compared with December 31, 2015, are presented below.

	December 31, 2016	December 31, 2015
Wage Inflation	3.25 percent	3.75 percent
Future Salary Increases, including inflation	3.25 to 10.05 percent including wage inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013 Retirees	3 percent, simple	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.15 percent, simple	3 percent, simple through 2018, then 2.8 percent, simple
Investment Rate of Return	7.5 percent	8 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

For 2016, mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

For 2015, mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2015. The prior experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3 percent for 2016.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00 %	2.75 %
Domestic Equities	20.70	6.34
Real Estate	10.00	4.75
Private Equity	10.00	8.97
International Equities	18.30	7.95
Other investments	18.00	4.92
Total	<u>100.00 %</u>	<u>5.66 %</u>

Discount Rate The discount rate used to measure the total pension liability for 2016 was 7.5 percent. The discount rate for 2015 was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
City's proportionate share of the net pension liability	\$3,649,645	\$2,389,141	\$1,338,482

Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2016, is based on the results of an actuarial valuation date of January 1, 2016, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2016, are presented below:

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Valuation Date	January 1, 2016, with actuarial liabilities rolled forward to December 31, 2016
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent plus productivity increase rate of 0.5 percent
Cost of Living Adjustments	3.00 percent simple; 2.6 percent simple for increases based on the lesser of the increase in CPI and 3 percent

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed January 1, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2016, are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash and Cash Equivalents	- %	0.00 %
Domestic Equity	16.00	5.21
Non-US Equity	16.00	5.40
Core Fixed Income *	20.00	2.37
Global Inflation Protected Securities*	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Timber	5.00	6.87
Master Limited Partnerships	8.00	7.36
Total	120.00 %	

Note: Assumptions are geometric.

* levered 2x

OP&F's Board of Trustees has incorporated the "risk parity" concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate The total pension liability was calculated using the discount rate of 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$1,795,519	\$1,348,107	\$968,920

Changes between Measurement Date and Report Date

In October 2017, the OP&F Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of January 1, 2017. The most significant change is a reduction in the discount rate from 8.25 percent to 8 percent. Although the exact amount of these changes is not known, it has the potential to impact to the City’s net pension liability.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the traditional pension and the combined plans. This trust is also used to fund health care for member-directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, member directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. See OPERS' CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0 percent for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2017 was 4.0 percent.

Substantially all of the City's contribution allocated to fund postemployment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the years ended December 31, 2017, 2016, and 2015 was \$13,628, \$27,202, and \$20,838, respectively. For 2017, 92.86 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2016 and 2015.

B. Police and Fire Pension Fund

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and fire employer units. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2017, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contribution to OP&F for the years ended December 31, 2017, 2016, and 2015 were \$91,613, \$92,657, and \$89,864, respectively, of which \$2,216, \$2,245, and \$2,174, respectively, was allocated to the healthcare plan. For 2017, 98 percent has been contributed for both police and firefighters with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2016 and 2015.

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

B. Employee Insurance Benefits

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

The City contracts with Anthem Blue Cross-Blue Shield for hospitalization and prescription insurance for all employees. Monthly premiums for single and family coverage are determined by each individual being insured meeting certain rate criteria. The City pays 100 percent of premiums for elected officials and 90 percent of premiums for all other employees. Premiums are paid from the same funds that pay the employees' salaries.

C. Compensated Absences

Vacation leave is earned at varying rates based upon length of service. A maximum number of vacation hours may be accumulated based on length of service. Any unused vacation is carried over. 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 4.6 hours per eighty hours of service for police employees, 4.2 hours per eighty hours of service for fire employees, and 3.84 hours per eighty hours of service for all other employees, and can be accumulated without limit. In the case of death or retirement of an employee who has ten years of service, an employee or his estate is paid for one-half of accumulated sick leave up to a maximum payment equal to three hundred sixty hours for police personnel, and one-quarter of accumulated sick leave up to a maximum payment equal to two hundred forty hours 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	\$2,000,000 Per Occurrence	\$4,000,000
Public Officials Liability	2,000,000 Per Occurrence	4,000,000
Auto Liability	2,000,000 Per Occurrence	
Law Enforcement Professional Liability	2,000,000 Per Occurrence	4,000,000
Employee Dishonesty	50,000 Per Occurrence	
Property Damage	25,743,792	

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

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

For 2017, the City paid the state workers' compensation system a premium based on a rate per \$100 of salaries. This rate is calculated based on accidents, history, and administrative costs. The participation in this state mandated insurance fund allows the City to transfer all risk associated with workers compensation.

NOTE 15 - LONG-TERM OBLIGATIONS

Changes in the City's long-term obligations during 2017 consist of the following:

	Outstanding 12/31/16	Additions	Reductions	Outstanding 12/31/17	Amounts Due Within One Year
<u>Governmental Activities:</u>					
<u>Loans Payable</u>					
Fire Department Renovation Loan - 2016- 3.38%	\$90,250	\$0	\$2,686	\$87,564	\$3,338
Fire Trucks Loan- 2014 - 3%	129,074	0	16,124	112,950	16,606
Fire Trucks Loan - 2001 - \$221,000 - 3.95%	67,471	0	14,732	52,739	15,328
Police Cruisers Loan - 2013 - \$63,288 - 2.75%	25,664	0	13,003	12,661	12,661
Jackson County Commissioners CDBG Loan - 2003 - \$50,000 - 0%	3,334	0	3,334	0	0
Total Loans Payable	315,793	0	49,879	265,914	47,933
<u>Net Pension Liability</u>					
OPERS	575,142	213,275	0	788,417	0
OP&F	1,354,804	0	6,697	1,348,107	0
Total Net Pension Liability	1,929,946	213,275	6,697	2,136,524	0
 Compensated Absences Payable	 95,057	 49,372	 10,543	 133,886	 62,447
 Total Governmental Activities	 \$2,340,796	 \$262,647	 \$67,119	 \$2,536,324	 \$110,380

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

	Outstanding 12/31/16	Additions	Reductions	Outstanding 12/31/17	Amounts Due Within One Year
<u>Business-Type Activities:</u>					
<u>General Obligation Bonds</u>					
Sewer Farmers Home Administration					
1993 - 5.00%	\$509,000	\$0	\$21,000	\$488,000	\$23,000
<u>Revenue Bonds</u>					
Sewer Farmers Home Administration					
1993 - 5.00%	1,276,000	0	54,000	1,222,000	57,000
<u>OPWC Loans</u>					
South Water Sludge Basin - 2009 - 0.00%	52,682	0	3,762	48,920	3,763
Green Acres Sewer Line - 2000 - 0.00%	12,128	0	3,032	9,096	3,032
Total OPWC Loans Payable	64,810	0	6,794	58,016	6,795
<u>OWDA Loans</u>					
Water Fund - 2010 - 3.00%	64,023	0	2,724	61,299	2,724
North Water Treatment Plant - 2011 - 0%	333,834	0	13,090	320,744	13,092
Jenkins Water Tank Replacement - 2011 - 2%	396,664	0	12,060	384,604	12,303
Fresh Water Fund (Phase II) - 2013 - 2.79%	60,874	0	988	59,886	4,552
South Water Upgrade - 2016 - 2.79%	935	54,071	55,006	0	0
South Water Treatment Plant - 2017 - 1.63%	0	296,800	140,468	156,332	0
Total OWDA Loans Payable	856,330	350,871	224,336	982,865	32,671
<u>Other Loans</u>					
Garbage Fund Truck Loan - 2013 - 2.75%	28,617	0	28,617	0	0
Total Loans	949,757	350,871	259,747	1,040,881	39,466
Net Pension Liability - OPERS	1,116,452	484,272	0	1,600,724	0
Compensated Absences Payable	99,284	16,615	16,281	99,618	51,422
Total Business-Type Activities	\$3,950,493	\$851,758	\$351,028	\$4,451,223	\$170,888

Compensated absences will be paid from the funds from which employees are paid, which include the General Fund, the Fire Levy and the Street Special Revenue Funds, and the Water, Sewer, and Garbage Enterprise Funds. There is no repayment schedule for the net pension liability. However, employer pension contributions are made from the following funds: General Fund, Water Fund, Sewer Fund, and Garbage Fund. For additional information related to the net pension liability see Note 11.

As of December 31, 2017, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$6,128,498, with an unvoted debt margin of \$3,083,540.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Governmental Activities:

In 2016, the City borrowed \$90,250 to renovate the fire department. The loan matures in 2026 and will be paid from the Fire Special Revenue Fund.

In 2014, the City borrowed \$160,000 to purchase a fire truck. The loan matures in 2024 and will be paid mainly from the Sales Tax Special Revenue Fund.

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

In 2013, the City borrowed \$63,288 to purchase two police cruisers. The loan matures in 2018 and will be paid from the Sales Tax Special Revenue Fund.

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

The annual requirements to retire all governmental loans outstanding as of December 31, 2017, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2018	\$47,933	\$8,695
2019	36,506	7,094
2020	42,645	5,825
2021	21,836	4,473
2022	22,513	3,796
2023-2026	94,481	9,505
	<u>\$265,914</u>	<u>\$39,388</u>

Business-Type Activities:

General Obligation Bonds

In 1993, the City issued Farmers Home Administration General Obligation Bonds for the Sewer Fund in the amount of \$798,000, for improvements to the City's sewer system. The bonds mature in 2032 and will be repaid through user fees. Principal and interest requirements to retire the City's general obligation bonds outstanding at December 31, 2017, are:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2018	\$23,000	\$24,400
2019	24,000	23,250
2020	25,000	22,050
2021	26,000	20,800
2022	27,000	19,500
2023-2027	159,000	75,600
2028-2032	204,000	31,600
	<u>\$488,000</u>	<u>\$217,200</u>

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Revenue Bonds

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

Principal and interest requirements to retire the City's revenue bonds outstanding at December 31, 2017, are:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2018	\$57,000	\$61,100
2019	59,000	58,250
2020	62,000	55,300
2021	65,000	52,200
2022	69,000	48,950
2023-2027	400,000	189,500
2028-2032	510,000	79,000
	<u>\$1,222,000</u>	<u>\$544,300</u>

OPWC Loans

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

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

Principal requirements to retire the City's OPWC loans outstanding at December 31, 2017 are:

<u>Year</u>	<u>Principal</u>
2018	\$6,795
2109	6,795
2020	6,795
2021	3,763
2022	3,763
2023-2027	18,815
2028-2030	11,290
	<u>\$58,016</u>

OWDA Loans

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

An OWDA loan was obtained in 2011 for upgrades to the North Water Treatment Plant. Repayment will be made from user fees and a loan forgiveness grant, and will be paid off in 2042.

An OWDA loan was obtained in 2011 for replacement of the Jenkins Water Tank. Repayment will be made from user fees and a loan forgiveness grant, and will be paid off in 2042.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

An OWDA loan was obtained in 2013 for additional upgrades to the North Water Treatment Plant (Fresh Water Phase II). Repayment will be from user fees, and will be paid off in 2029.

An OWDA loan was obtained in 2016 for upgrades to the South Water Treatment Plant (South Water Upgrade). Repayment will be from user fees. The loan was paid off in 2017.

An OWDA loan was obtained in 2017 for upgrades to the South Water Treatments Plant (South Water Treatment Plant). Repayment will be made from a loan forgiveness grant. The loan has not been fully drawn, and an amortization schedule is not available.

Principal and interest requirements to retire the City’s enterprise OWDA loans outstanding at December 31, 2017, are as follows:

Year	Principal	Interest
2018	\$32,671	\$9,296
2019	33,044	8,921
2020	33,427	8,537
2021	33,819	8,144
2022	34,221	7,793
2023-2027	177,468	32,362
2028-2032	165,379	21,796
2033-2037	165,395	13,355
2038-2042	151,109	4,327
Total	\$826,533	\$114,531

Other Loans

In 2013, the City borrowed \$138,850 for the purchase of a garbage truck. This loan was paid off during 2017.

Pledged Revenues

The City has pledged future customer water revenues, net of specified operating expenses, to repay six Ohio Water Development Authority loans. The loans are payable solely from customer net revenues. The final loan payment will be in 2042. Net revenues include all revenues received by the water utility less all operating expenses other than depreciation expense.

Annual principal and interest payments on the loans are expected to require 7 percent of net revenues. The total principal and interest remaining to be paid on the loans is \$1,097,396. Principal and interest payments for the current year were \$233,632, net revenues were \$565,392 and total revenues were \$1,955,453.

The City has pledged future customer sewer revenues, net of specified operating expenses, to repay \$2,000,000 in revenue bonds issued in 1993. The bonds are payable solely from customer net revenues and are payable through 2032. Net revenues include all revenues received by the sewer utility less all operating expenses other than depreciation expense.

Annual principal and interest payments on the bonds are expected to require 40 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$1,766,300. Principal and interest payments for the current year were \$117,550, net revenues were \$292,317 and total revenues were \$1,144,544.

City of Wellston, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 16 - INTERFUND BALANCES

Interfund Receivable and Interfund Payable balances at December 31, 2017, consisted of an interfund receivable to the General Fund and an interfund payable from the Recreation Special Revenue Fund. The advance from the General Fund to the Recreation Special Revenue Fund is due to timing differences with a reimbursement-basis grant. This advance will be repaid in 2018.

NOTE 17 - CONTINGENT LIABILITIES

A. Litigation

The City is currently party to legal proceedings. The City has determined that any potential liability will not have a material effect on the financial statements.

B. Federal and State Grants

For the period January 1, 2017, to December 31, 2017, 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 - SIGNIFICANT COMMITMENTS

A. Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to ensure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end, the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

General Fund	\$26,250
Fire Fund	3,872
Street Fund	11,680
Non-Major Governmental Funds	27,550
Water Fund	594,488
Sewer Fund	27,972
Garbage Fund	415
	\$ 692,227

B. Contractual Commitments

As of December 31, 2017, the City had contractual commitments in the Water Enterprise Fund as follows:

Project	Contract Amount	Amount Expended	Balance at 12/31/2017
SWTP Control Upgrade Engineering	39,500	34,175	5,325
South Water Treatment Plant Improvements	509,311	74,040	435,271
Totals	\$548,811	\$108,215	\$440,596

City of Wellston, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System - Traditional Plan
Last Four Years (1)

	2017	2016	2016	2014
City's Proportion of the Net Pension Liability	0.0105210%	0.0097660%	0.0095470%	0.0095470%
City's Proportionate Share of the Net Pension Liability	\$2,389,141	\$1,691,594	\$1,151,471	\$1,125,465
City's Covered Payroll	\$1,362,769	\$1,165,808	\$1,041,908	\$1,170,417
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	175.32%	145.10%	110.52%	96.16%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.25%	81.08%	86.45%	86.36%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

City of Wellston, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Police and Fire Pension Fund
Last Four Years (1)

	2017	2016	2016	2014
City's Proportion of the Net Pension Liability	0.0212840%	0.0210600%	0.0206536%	0.0206536%
City's Proportionate Share of the Net Pension Liability	\$1,348,107	\$1,354,804	\$1,069,942	\$1,005,894
City's Covered Payroll	\$448,713	\$454,728	\$440,284	\$422,474
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	300.44%	297.94%	243.01%	238.10%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.36%	66.77%	71.71%	73.00%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

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City of Wellston, Ohio
Required Supplementary Information
Schedule of City Contributions
Ohio Public Employees Retirement System - Traditional Plan
Last Five Years (1)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$177,160	\$139,897	\$125,029	\$140,450	\$111,454
Contributions in Relation to the Contractually Required Contribution	<u>(177,160)</u>	<u>(139,897)</u>	<u>(125,029)</u>	<u>(140,450)</u>	<u>(111,454)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$1,362,769	\$1,165,808	\$1,041,908	\$1,170,417	\$857,338
Contributions as a Percentage of Covered Payroll	13.00%	12.00%	12.00%	12.00%	13.00%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2013 is not available. An additional column will be added each year.

City of Wellston, Ohio
Required Supplementary Information
Schedule of City Contributions
Ohio Police and Fire Pension Fund
Last Ten Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$91,613	\$92,657	\$89,864	\$86,434
Contributions in Relation to the Contractually Required Contribution	<u>(91,613)</u>	<u>(92,657)</u>	<u>(89,864)</u>	<u>(86,434)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$448,713	\$454,728	\$440,284	\$422,474
Contributions as a Percentage of Covered Payroll:	20.42%	20.38%	20.41%	20.46%

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$57,125	\$45,743	\$67,911	\$74,739	\$82,759	\$81,666
<u>(57,125)</u>	<u>(45,743)</u>	<u>(67,911)</u>	<u>(74,739)</u>	<u>(82,759)</u>	<u>(81,666)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$336,540	\$331,364	\$487,473	\$527,508	\$605,295	\$593,191
16.97%	13.80%	13.93%	14.17%	13.67%	13.77%

City of Wellston, Ohio
Notes to the Required Supplementary Information
For the year ended December 31, 2017

Changes in Assumptions - OPERS

Amounts reported for 2017 incorporate changes in assumptions used by OPERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in 2016 and prior are presented below:

	December 31, 2017	December 31, 2016 and Prior
Wage Inflation	3.25 percent	3.75 percent
Future Salary Increases, including inflation	3.25 to 10.05 percent including wage inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013 Retirees	3 percent, simple	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.15 percent, simple	3 percent, simple through 2018, then 2.8 percent, simple
Investment Rate of Return	7.5 percent	8 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

Amounts reported for 2017 use mortality rates based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

Amounts reported for 2016 and prior use mortality rates based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards***

City of Wellston
Jackson County
20 East Broadway
Wellston, Ohio 45692

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, 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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 26, 2018.

Internal Control over Financial Reporting

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not be prevent or detect and timely correct a material misstatements of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weakness or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Members of Council
City of Wellston, Jackson County
Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters Required by
Government Auditing Standards

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

J. L. Uhrig and Associates, Inc.

J. L. UHRIG AND ASSOCIATES, INC.
Chillicothe, Ohio

June 26, 2018



Dave Yost • Auditor of State

CITY OF WELLSTON

JACKSON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 27, 2018**