



CITY OF WELLSTON, OHIO

Single Audit

For the Year Ended December 31, 2001

J.L. UHRIG
AND ASSOCIATES INC.

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS





STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Members of Council
City of Wellston

We have reviewed the Independent Auditor's Report of the City of Wellston, Jackson County, prepared by J.L. Uhrig & Associates, Inc. for the audit period January 1, 2001 through December 31, 2001. 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, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

September 5, 2002

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Independent Auditor's Report

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

We have audited the accompanying general purpose financial statements of the City of Wellston (the City) as of and for the year ended December 31, 2001. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of the City as of December 31, 2001, and the results of its operations and cash flows of its proprietary and fiduciary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 20, 2002 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report when considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the City, taken as a whole. The accompanying schedule of federal awards expenditures required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

J. L. Uhrig & Associates, Inc.

J. L. UHRIG & ASSOCIATES, INC.

August 20, 2002

CITY OF WELLSTON, OHIO
 Combined Balance Sheet
 All Fund Types and Account Groups
 As of December 31, 2001

	GOVERNMENTAL FUND TYPES		
	General	Special Revenue	Capital Projects
<i>Assets and Other Debits:</i>			
<i>Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$0	\$506,044	\$2
Investments	0	2,280,461	0
Receivables:			
Taxes	227,114	509,838	0
Accounts	0	0	0
Accrued Interest	0	28,349	0
Due from Other Funds	1,485	5,281	0
Notes Receivable	0	0	0
Due from Other Governments	47,019	374,228	0
Materials and Supplies			
Inventory	2,812	11,735	0
Loans Receivable	0	432,760	0
Prepaid Items	3,352	2,425	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0
<i>Other Debits:</i>			
Amount to be Provided for Retirement of General Long-Term Obligations	0	0	0
<i>Total Assets and Other Debits</i>	\$281,782	\$4,151,121	\$2
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PROPRIETARY FUND TYPES	FIDUCIARY FUND TYPE	ACCOUNT GROUPS		Totals (Memorandum Only)
		Trust and Agency	General Fixed Assets	
Enterprise				
\$637,904	\$128,871	\$0	\$0	\$1,272,821
0	155,906	0	0	2,436,367
0	0	0	0	736,952
274,297	0	0	0	274,297
0	2,401	0	0	30,750
35,831	44,141	0	0	86,738
373,331	0	0	0	373,331
390,000	0	0	0	811,247
14,281	0	0	0	28,828
0	0	0	0	432,760
14,861	0	0	0	20,638
11,831,613	0	4,167,922	0	15,999,535
0	0	0	265,110	265,110
<u>\$13,572,118</u>	<u>\$331,319</u>	<u>\$4,167,922</u>	<u>\$265,110</u>	<u>\$22,769,374</u>

(Continued)

CITY OF WELLSTON, OHIO
 Combined Balance Sheet
 All Fund Types and Account Groups
 As of December 31, 2001

	GOVERNMENTAL FUND TYPES		
	General	Special Revenue	Capital Projects
<i>Liabilities, Fund Equity and Other Credits:</i>			
<i>Liabilities:</i>			
Accounts Payable	\$4,790	\$13,354	\$0
Accrued Wages and Benefits	13,710	6,083	0
Compensated Absences Payable	6,302	4,943	0
Due to Other Funds	0	49,562	0
Due to Other Governments	30,741	20,583	0
Deferred Revenue	250,521	626,501	0
Deposits Held and Due to Others	0	0	0
Accrued Interest Payable	0	0	0
Notes Payable	0	0	0
Loans Payable	0	0	0
<i>Total Liabilities</i>	306,064	721,026	0
<i>Fund Equity and Other Credits:</i>			
Investment in General Fixed Assets	0	0	0
Contributed Capital	0	0	0
Retained Earnings:			
Unreserved	0	0	0
Fund Balance:			
Reserved for Loans	0	432,760	0
Reserved for Inventory	2,812	11,735	0
Reserved for Encumbrances	24,847	192,025	0
Reserved for Prepaid Items	3,352	2,425	0
Reserved for Principal Endowment	0	0	0
Unreserved:			
Undesignated (Deficit)	(55,293)	2,791,150	2
<i>Total Fund Equity (Deficit) and Other Credits</i>	(24,282)	3,430,095	2
<i>Total Liabilities and Fund Equity and Other Credits</i>	\$281,782	\$4,151,121	\$2

The notes to the financial statements are an integral part of this statement.

PROPRIETARY FUND TYPES	FIDUCIARY FUND TYPE	ACCOUNT GROUPS		Totals (Memorandum Only)
		Trust and Agency	General Fixed Assets	
Enterprise				
\$33,094	\$0	\$0	\$0	\$51,238
17,640	0	0	0	37,433
53,630	0	0	50,182	115,057
37,176	0	0	0	86,738
49,282	0	0	0	100,606
87,500	0	0	0	964,522
0	44,877	0	0	44,877
82,553	0	0	0	82,553
42,000	0	0	214,928	256,928
6,382,328	0	0	0	6,382,328
-----	-----	-----	-----	-----
6,785,203	44,877	0	265,110	8,122,280
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0	0	4,167,922	0	4,167,922
4,005,884	0	0	0	4,005,884
2,781,031	0	0	0	2,781,031
0	0	0	0	432,760
0	0	0	0	14,547
0	0	0	0	216,872
0	0	0	0	5,777
0	207,906	0	0	207,906
0	78,536	0	0	2,814,395
-----	-----	-----	-----	-----
6,786,915	286,442	4,167,922	0	14,647,094
-----	-----	-----	-----	-----
\$13,572,118	\$331,319	\$4,167,922	\$265,110	\$22,769,374
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CITY OF WELLSTON, OHIO
 Combined Statement of Revenues, Expenditures
 And Changes in Fund Balances
 All Governmental Fund Types
 For the Year Ended December 31, 2001

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Revenues:				
Taxes	\$184,520	\$617,817	\$0	\$802,337
Charges for Services	750	54,097	2,827	57,674
Fees, Licenses and Permits	19,620	22,375	0	41,995
Fines and Forfeitures	28,961	0	0	28,961
Intergovernmental	265,983	833,836	0	1,099,819
Interest	124,096	18,595	0	142,691
Rental	45,000	0	0	45,000
Other	76,575	127,495	0	204,070
Total Revenues	745,505	1,674,215	2,827	2,422,547
Expenditures:				
Current:				
General Government:				
Legislative and Executive	239,960	180,894	0	420,854
Security of Persons & Property	423,126	212,669	0	635,795
Leisure Time Activity	0	38,728	0	38,728
Health	0	108,174	0	108,174
Transportation	0	447,737	0	447,737
Community Environment	0	252,138	0	252,138
Other	0	152,299	0	152,299
Capital Outlay	0	0	6,552	6,552
Debt Service:				
Principal Retirement	0	19,722	0	19,722
Interest and Fiscal Charges	0	13,850	0	13,850
Total Expenditures	663,086	1,426,211	6,552	2,095,849
Excess of Revenues Over (Under) Expenditures	82,419	248,004	(3,725)	326,698
Other Financing Sources (Uses):				
Proceed of Notes	0	0	0	0
Operating Transfers - Out	0	0	0	0
Total Other Financing Sources (Uses)	0	0	0	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	82,419	248,004	(3,725)	326,698
Fund Balance (Deficit) at Beginning of Year Restated - See Note 15	(106,701)	3,182,091	3,727	3,079,117
Fund Balance (Deficit) at End of Year	(\$24,282)	\$3,430,095	\$2	\$3,405,815

The notes to the financial statements are an integral part of this statement.

CITY OF WELLSTON, OHIO
 Combined Statement of Revenues, Expenditures and Changes
 In Fund Balances - Budget (Non-GAAP Basis) and Actual
 All Governmental Fund Types
 For the Year Ended December 31, 2001

	GENERAL		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Taxes	\$218,434	\$184,520	(\$33,914)
Charges for Services	0	750	750
Fees, Licenses and Permits	15,736	19,620	3,884
Fines and Forfeitures	26,226	28,961	2,735
Intergovernmental	194,074	265,931	71,857
Interest	225,545	127,174	(98,371)
Rental	47,207	45,000	(2,207)
Other	15,736	76,575	60,839
Total Revenues	742,958	748,531	5,573
Expenditures:			
Current:			
General Government:			
Legislative and Executive	302,284	291,731	10,553
Security of Persons and Property	523,096	486,054	37,042
Total Expenditures	825,380	777,785	47,595
Excess of Revenues Over (Under) Expenditures	(82,422)	(29,254)	53,168
Fund Balance at Beginning of Year	(33)	(33)	0
Fund Balance at End of Year	(\$82,455)	(\$29,287)	\$53,168

(Continued)

CITY OF WELLSTON, OHIO
 Combined Statement of Revenues, Expenditures and Changes
 In Fund Balances - Budget (Non-GAAP Basis) and Actual
 All Governmental Fund Types
 For the Year Ended December 31, 2001
 (Continued)

	SPECIAL REVENUE		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Taxes	\$542,421	\$553,575	\$11,154
Charges for Services	34,662	54,097	19,435
Fees, Licenses, and Permits	24,850	22,375	(2,475)
Intergovernmental	574,169	695,457	121,288
Interest	42,982	45,675	2,693
Other	338,275	193,243	(145,032)
<i>Total Revenues</i>	<u>1,557,359</u>	<u>1,564,422</u>	<u>7,063</u>
Expenditures:			
Current:			
General Government:			
Legislative & Executive	180,011	190,310	(10,299)
Health	93,982	109,598	(15,616)
Leisure Time Activity	41,031	43,360	(2,329)
Transportation	670,697	677,976	(7,279)
Security of Persons and Property	213,321	259,464	(46,143)
Community Environment	288,219	344,218	(55,999)
Other	164,000	192,299	(28,299)
Capital Outlay	51,000	0	51,000
Debt Service:			
Payment on Principal	27,072	27,072	0
Interest and Fiscal Charges	20,413	20,413	0
<i>Total Expenditures</i>	<u>1,749,746</u>	<u>1,864,710</u>	<u>(114,964)</u>
Excess of Revenues Over (Under) Expenditures	<u>(192,387)</u>	<u>(300,288)</u>	<u>(107,901)</u>
Fund Balance at Beginning of Year	<u>3,018,697</u>	<u>3,018,697</u>	<u>0</u>
Fund Balance at End of Year	<u>\$2,826,310</u>	<u>\$2,718,409</u>	<u>(\$107,901)</u>

(Continued)

CITY OF WELLSTON, OHIO
 Combined Statement of Revenues, Expenditures and Changes
 In Fund Balances - Budget (Non-GAAP Basis) and Actual
 All Governmental Fund Types
 For the Year Ended December 31, 2001
 (Continued)

	CAPITAL PROJECTS		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<i>Revenues:</i>			
Charges for Services	\$5,144	\$2,827	(\$2,317)
<i>Total Revenues</i>	5,144	2,827	(2,317)
<i>Expenditures:</i>			
Capital Outlay	0	6,552	(6,552)
<i>Total Expenditures</i>	0	6,552	(6,552)
Excess of Revenues Over (Under) Expenditures	5,144	(3,725)	(8,869)
Fund Balance at Beginning of Year	3,727	3,727	0
Fund Balance at End of Year	\$8,871	\$2	(\$8,869)

The notes to the financial statements are an integral part of this statement.

CITY OF WELLSTON, OHIO
 Combined Statement of Revenues, Expenses, and
 Changes in Fund Equity
 All Proprietary Fund Types and Similar Trust Fund
 For the Year Ended December 31, 2001

	PROPRIETARY FUND TYPES	FIDUCIARY FUND TYPES	Totals (Memorandum Only)
	Enterprise	Non-Expendable Trust	
Operating Revenues:			
Charges for Services	\$2,562,795	\$5,050	\$2,567,845
Investment Income	0	1,544	1,544
Other Operating Revenues	25,868	0	25,868
Total Operating Revenues	2,588,663	6,594	2,595,257
Operating Expenses:			
Salaries	631,787	0	631,787
Fringe Benefits	257,919	0	257,919
Purchased Services	64	0	64
Materials and Supplies	285,926	0	285,926
Depreciation	360,026	0	360,026
Contractual Services	532,991	0	532,991
Other	239,697	0	239,697
Total Operating Expenses	2,308,410	0	2,308,410
Operating Income (Loss)	280,253	6,594	286,847
Non-Operating Revenues (Expenses):			
Other Non-Operating Revenues	739	0	739
Grant Revenue	302,500	0	302,500
Interest and Fiscal Charges	(201,131)	0	(201,131)
Net Increase (Decrease) in Investments	0	(3,035)	(3,035)
Total Non-Operating Revenues (Expenses)	102,108	(3,035)	99,073
Net Income (Loss)	382,361	3,559	385,920
Depreciation on Fixed Assets Acquired by Contributed Capital	61,207	0	61,207
Retained Earnings at Beginning of Year	2,337,463	282,883	2,620,346
Retained Earnings at End of Year	2,781,031	286,442	3,067,473
Contributed Capital at Beginning of Year	4,067,091	0	4,067,091
Depreciation on Fixed Assets Acquired by Contributed Capital	(61,207)	0	(61,207)
Contributed Capital at End of Year	4,005,884	0	4,005,884
Total Fund Equity at End of Year	\$6,786,915	\$286,442	\$7,073,357

The notes to the financial statements are an integral part of this statement.

CITY OF WELLSTON, OHIO
 Combined Statement of Cash Flows
 All Proprietary Fund Types and Similar Trust Fund
 For the Year Ended December 31, 2001

	PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES		Totals (Memorandum Only)
	Enterprise	Internal Service	Non-Expendable Trust		
<i>Increase (Decrease) in Cash and Cash Equivalents:</i>					
<i>Cash Flows from Operating Activities:</i>					
Cash Received from Customers	\$2,411,147	\$0	\$5,183		\$2,416,330
Cash Received from Other Operating Sources	25,868	0	0		25,868
Cash Payments to Suppliers for Goods and Services	(1,023,638)	0	0		(1,023,638)
Cash Payments to Employees for Services	(618,732)	0	0		(618,732)
Cash Payments for Employee Benefits	(241,963)	0	0		(241,963)
Cash Payments for Other Expenses	(58,330)	0	0		(58,330)
Net Cash Provided by (Used for) Operating Activities	494,352	0	5,183		499,535
<i>Cash Flows from Noncapital Financing Activities:</i>					
Other Non-Operating Revenue	47,406	0	0		47,406
Due to/from Other Funds	1,345	0	(44,141)		(42,796)
Net Cash Provided by (Used for) Noncapital Financing Activities	48,751	0	(44,141)		4,610
<i>Cash Flows from Capital and Related Financing Activities:</i>					
Payments for Capital Acquisitions	(249,009)	0	0		(249,009)
Principal Payments	(288,504)	0	0		(288,504)
Interest Payments	(201,274)	0	0		(201,274)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(738,787)	0	0		(738,787)
Net Increase (Decrease) in Cash and Cash Equivalents	(195,684)	0	(38,958)		(234,642)
Cash and Cash Equivalents at Beginning of Year	833,588	0	122,952		956,540
Cash and Cash Equivalents at End of Year	\$637,904	\$0	\$83,994		\$721,898
<i>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</i>					
Operating Income (Loss)	\$280,253	\$0	\$6,594		\$286,847
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</i>					
Depreciation	360,026	0	0		360,026
Changes in Assets and Liabilities:					
(Increase)/Decrease in Accounts Receivable	(35,988)	0	0		(35,988)
(Increase)/Decrease in Accrued Interest Receivable	0	0	(1,411)		(1,411)
(Increase)/Decrease in Prepaid Items	(6,793)	0	0		(6,793)
Increase/(Decrease) in Accounts Payable	(132,157)	0	0		(132,157)
Increase/(Decrease) in Accrued Wages and Benefits	4,436	0	0		4,436
Increase/(Decrease) in Compensated Absences Payable	3,297	0	0		3,297
Increase/(Decrease) in Due to Other Governments	21,278	0	0		21,278
Total Adjustments	214,099	0	(1,411)		212,688
Net Cash Provided by (Used for) Operating Activities	\$494,352	\$0	\$5,183		\$499,535
Cash and Cash Equivalents - All Fiduciary Funds			\$128,871		
Cash and Cash Equivalents - Agency Funds			44,877		
Cash and Cash Equivalents - Non-Expendable Trust Fund			\$83,994		

The notes to the financial statements are an integral part of this statement.

CITY OF WELLSTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Wellston have been prepared in conformity with accounting principles generally accepted in the United States of America as applies to governmental units. The Governmental Accounting Standards Board is the accepted standard - setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board Statements and Interpretations issued before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the City's accounting policies are described below.

A. CITY GOVERNMENT AND REPORTING ENTITY

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

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

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the City are fairly presented and completed. The primary government consists of all funds, departments, boards and commissions that are not legally separate from the City. The City departments include a public safety department, a public service department, a parks and recreation department, a planning and zoning department, utility departments including sewer and water, and staff to provided support to service providers.

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. Components units may also include organizations for which the City approves the budget, the issuance of debt or levying of taxes. The City has no blended or discretely presented component units.

CITY OF WELLSTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIS OF ACCOUNTING - FUND ACCOUNTING

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

A fund is a separate accounting entity with self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable financial resources.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate fund types. The following categories and fund types are used by the City:

GOVERNMENTAL FUNDS

General Fund - The general fund is used to account for all activities of the City not required to be included in another fund.

Special Revenue Funds - The special revenue funds are used to account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Project Funds - The capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by the proprietary funds).

PROPRIETARY FUNDS:

Enterprise Funds - The enterprise funds are used to account for operations financed and operated in a manner similar to private business enterprises. The intent of the City is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

FIDUCIARY FUNDS:

Trust and Agency Funds - These funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds.

CITY OF WELLSTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIS OF ACCOUNTING - FUND ACCOUNTING (Continued)

ACCOUNT GROUPS:

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

General Long-Term Obligations Account Group - The General Long-Term Obligations Account Group is used to account for all long-term obligations of the City, except those accounted for in the proprietary funds.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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

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

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 fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within sixty days of fiscal year end.

CITY OF WELLSTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which taxes are levied. (See Note 6.) Revenue from grants 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 fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, interest, and grants.

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

Property taxes for which there is an enforceable legal claim as of December 31, 2001, but which were levied to finance fiscal year 2002 operations, have been recorded as deferred revenue.

Under the modified accrual basis of accounting, receivables that will not be collected within the available period have also been reported as deferred revenue.

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 the governmental funds.

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund types and the non-expendable trust fund. Revenues are recognized in the accounting period which they are earned, and expenses are recognized at the time they are incurred.

CITY OF WELLSTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. BUDGETS AND BUDGETARY ACCOUNTING

The City follows these procedures in establishing the budgetary data reported in the combined financial statements.

Tax Budget: By July 15, the Auditor submits an annual tax budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year. (However, in accordance with Section 5747.53 of the Ohio Revised Code, the County Budget Commission has provided for the apportionment of undivided local government funds under an alternative method which has been approved by governmental subdivisions within the County. Under this alternative method, the County budget Commission has waived the requirement for the City and other Taxing Authority to adopt a tax budget.)

Estimated Resources: The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources which states the projected receipts of each fund. On or about January 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources.

The revised budget then serves as the basis for the annual appropriation measure. Further amendments may be made during the year if the Council determines that revenue to be collected will be greater than or less than prior estimates and the budget commission finds the revised estimate to be reasonable. The amounts set forth in the financial statements represents estimates from the final amended certificate issued in 2001.

Appropriations: A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriation budget is prepared by fund and function. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources. Supplemental appropriations may be adopted by Council. Amounts shown in the financial statements represent the appropriated budgeted amounts and all supplemental appropriations. One supplemental appropriation was adopted during 2001 by Council.

Budgeted Level of Expenditure: Administrative control is maintained through the establishment of detailed line-item budgets. Appropriated funds may not be expended for purposes other than those designated in the appropriation ordinance without authority from Council. For all funds, Council appropriations are budgeted to fund, function, and detailed object level. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by Council. The appropriations allocations may be made by the City Auditor as long as the allocations are within Council's appropriated amount.

CITY OF WELLSTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. BUDGETS AND BUDGETARY ACCOUNTING (Continued)

Encumbrances: As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of funds are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve the portion of the applicable appropriation and determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as a reservation of fund balance and subsequent year expenditures for governmental funds, and as a note disclosure for proprietary funds.

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

E. CASH AND INVESTMENTS

Cash and Investments: To improve cash management, cash received by the City is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet.

During fiscal year 2001, investments were limited to U.S. Treasury Notes, and STAR Ohio.

Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2001. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but is operated in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price of the investment could be sold for on December 31, 2001.

Interest is distributed to various funds based upon the Ohio Revised Code requirements.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, funds included within the Treasurer's cash management pool and investments with original maturities of three months or less are considered to be cash and cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

CITY OF WELLSTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. PROPERTY, PLANT AND EQUIPMENT

The fixed asset values initially were determined at December 31, 1995, assigning original acquisition costs when such information was available. In cases where information supporting original costs was not available, estimated historical costs were developed. Donated fixed assets are capitalized at estimated fair market value on the date donated. The City has established \$1,000 as the threshold for which fixed assets are to be reported.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements which extend the useful life or increase the capacity or operating efficiency of the asset are capitalized at cost.

General Fixed Assets: General fixed assets (fixed assets used in governmental fund type operation) are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group at historical cost or estimated historical cost. Assets in the general fixed assets account group are not depreciated.

The City follows the policy of not capitalizing infrastructure, which is defined as assets that are immovable and of value only to the City, (i.e. roads, bridges, etc.), ornamental artifacts, and assets with a cost of less than \$1,000.

Enterprise Fund Fixed Assets: Fixed assets reflected in the enterprise funds are stated at historical cost (or estimated historical cost) and are updated for the cost of additions and retirements during the year. Depreciation has been provided on a straight-line basis over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	40 years
Furniture	15 years
Machinery and Equipment	15 years
Vehicles	5 years
Water/Sewer Lines	70 years

G. INVENTORIES OF SUPPLIES

Inventories of governmental funds are stated at cost while inventories of enterprise funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased and as expenses in the enterprise funds when used. Reported supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

CITY OF WELLSTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond December 31, 2001, are recorded as prepaid items by using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

I. INTERFUND ASSETS AND LIABILITIES

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "Due from Other Funds" or "Due to Other Funds" on the balance sheet. Short-term interfund loans or the short-term portion of advances are classified as interfund receivables/payables.

J. COMPENSATED ABSENCES

The City follows the provisions of GASB Statement No. 16, *Accounting for 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 employer 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 termination method. The liability includes the employees who are currently eligible to receive termination benefits and by those employees for whom it is probable will become eligible to receive payment in the future. The amount is based on accumulated sick leave and employee's wage rates at year end. This item is discussed in Note 12 to the General Purpose Financial Statements.

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

CITY OF WELLSTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. CONTRIBUTED CAPITAL

Contributed capital represents resources from other funds, other governments, private sources, and tap-in fees, to the extent they exceed the cost of physical connection to the system, which have been provided to the enterprise funds and are not subject to repayment. Because the City, prior to 1992 had not prepared financial statements in accordance with accounting principles generally accepted in the United States of America, the exact amount of contributed capital pertaining to years prior to 1992 cannot be determined. Consequently, only those amounts that have been able to be identified specifically have been classified as contributed capital in the accompanying combined financial statements. All other fund equity amounts pertaining to the enterprise funds have been classified as retained earnings. As of December 31, 2001 the City's contributed capital consisted of tap-in fees and capital grants. Capital contributions received after December 31, 2000 are recorded as non-operating revenue in the enterprise funds.

L. RESERVES OF FUND EQUITY

The City records reservations for those portions of fund balance which are legally segregated for specific future use or which do not represent available, spendable resources and, therefore, are not available for expenditure. Undesignated fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves have been established for principal endowment, inventory of supplies, prepaid items, and for loans, which represent community development monies loaned to local businesses and homeowners.

M. SHORT-TERM OBLIGATIONS

Under Ohio Law, a debt retirement fund must be created and used for the payment of all debt principal and interest. Accounting principles generally accepted in the United States of America require bond anticipation notes to be reported as a liability in the fund which received the proceeds.

N. LONG-TERM DEBT

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term obligations account group.

O. INTERFUND TRANSACTIONS

During the course of normal operations, the City has numerous transactions between funds, most of which are in the form of transfers of resources to provide services, construct assets and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Operating subsidies are also recorded as operating transfers.

CITY OF WELLSTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. INTERFUND TRANSACTIONS (Continued)

Nonrecurring and non-routine transfers of equity between funds and the transfer of residual balances of discontinued funds or projects to the general fund or capital projects funds are classified as residual equity transfers.

Transactions that constitute reimbursements for expenditures or expenses initially made from a fund that are properly allocable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditures and expenses in the fund that is reimbursed.

P. ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Q. TOTAL COLUMNS ON FINANCIAL STATEMENTS

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

2. CASH DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash, in 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 the Board has identified as not required for use within the two year period of designation of depositories. Inactive deposits must be either 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 moneys. Interim moneys are those moneys which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

CITY OF WELLSTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

2. CASH DEPOSITS AND INVESTMENTS (Continued)

State statute permits interim monies to be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or other obligations of or security issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the fair 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 fair value daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

CITY OF WELLSTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2001

2. CASH DEPOSITS AND INVESTMENTS (Continued)

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

Deposits: At year end, the carrying amount of the City's deposits was \$640,244 and the bank balance was \$717,888. Of the bank balance:

1. \$100,653 was covered by federal depository insurance; and
2. \$617,235 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City held to a successful claim by the FDIC.

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

	Category			Carrying Value	Fair Value
	1	2	3		
Investments:					
U.S. Treasury Notes	\$ 0	\$2,436,367	\$ 0	\$2,436,367	\$2,436,367
State Treasury Pool	0	0	0	632,577	632,577
Total					
Investments	\$ 0	\$2,436,367	\$ 0	\$3,068,944	\$3,068,944

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting*.

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

CITY OF WELLSTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2001

2. CASH DEPOSITS AND INVESTMENTS (Continued)

GASB 9 to GASB 3 Reconciliation

	<u>Cash & Cash Equivalents</u>	<u>Investments</u>
GASB 9 Balances	\$1,272,821	\$2,436,367
Star Ohio	<u>(632,577)</u>	<u>632,577</u>
 GASB 3	 <u>\$ 640,244</u>	 <u>\$3,068,944</u>

3. BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses Governmental Fund Types		
	<u>General</u>	<u>Special Revenue</u>
GAAP Basis	\$82,419	\$248,004
Adjustments:		
Revenue Accrual	3,026	(7,750)
Expenditure Accrual	(85,062)	(327,273)
Encumbrances	<u>(29,637)</u>	<u>(213,269)</u>
Budget Basis	<u>\$(29,254)</u>	<u>\$(300,288)</u>

There were no differences between the budget basis and the GAAP basis in the Capital Project Fund.

CITY OF WELLSTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2001

4. ACCOUNTABILITY AND COMPLIANCE

A. Accountability

The following funds have a fund balance deficit as of December 31, 2001:

<u>General Fund</u>	\$24,282
<u>Special Revenue Funds</u>	
Cemetery	44,141
Sales Tax	5,281
Dare	140
<u>Enterprise Funds</u>	
Pool	15,625
McNally	29,752

The deficit in the General Fund does not exist on the cash basis and is the result of applying accounting principles generally accepted in the United States of America and the requirement to accrue liabilities when incurred. The General Fund is liable for any deficits in these funds and provides operating transfers when cash is required, not when accruals occur. The Cemetery, Sales Tax, and Dare Special Revenue Funds, the Pool and McNally Enterprise Funds had a deficit on both the cash and the GAAP basis and are the results of overspending available resources. While the General Fund is liable for these deficits, the fund did not have enough of a cash balance to support all these deficits. Therefore, the Income Tax Special Revenue Fund, the Sewer and Water Enterprise Funds, and the Cemetery Trust Nonexpendable Trust Fund were also used to provide support for the negative cash balances.

B. Compliance

The following funds had expenditures plus encumbrances in excess of appropriations, at the legal level of appropriation, at December 31, 2001:

<u>Special Revenue Funds</u>	
Recreation Fund	
Leisure Time Activity	\$2,329
Sales Tax Fund	
Transportation	54,700
C.D.B.G. Revolving Loan Fund	
Other Expenditures	29,247
Fire Fund	
Security of Persons & Property	49,253
Cemetery Fund	
Health	15,616
State Highway Fund	
Transportation	7,494
Housing Preservation Fund	
Community Environment	71,198
Income Tax Fund	
Legislative & Executive	10,299
<u>Capital Project Fund</u>	
Ridgewood Fund	
Capital Outlay	6,552

CITY OF WELLSTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

4. ACCOUNTABILITY AND COMPLIANCE(Continued)

B. Compliance (Continued)

The following funds had appropriations in excess of estimated resources at December 31, 2001:

<u>General Fund</u>	\$82,455
<u>Special Revenue Funds</u>	
Fire Fund	4,013
Street Fund	4,803
Cemetery Fund	31,582
Recreation Fund	929
CHIS Fund	5,800
Housing Preservation Fund	15,906
Railroad Depot Fund	186
Income Tax Fund	180,111

5. DEBT OBLIGATIONS

The City's long-term obligation at year end consisted of the following:

Types / Issues	Outstanding at 12/31/00	Issued	Retired	Outstanding at 12/31/01
<u>General Long-Term Debt</u>				
Compensated Absences	\$ 56,286	\$ 0	\$ 6,104	\$ 50,182
Fire Truck Note	221,000	0	6,072	214,928
Capital Lease Payable	13,650	0	13,650	0
Total Long-Term Debt	<u>\$ 290,936</u>	<u>\$ 0</u>	<u>\$ 25,826</u>	<u>\$ 265,110</u>
<u>Enterprise Fund Obligations</u>				
<u>Water Fund</u>				
OPWC Loan	\$ 531,405	\$ 0	\$ 18,245	\$ 513,160
OWDA Loan	1,080,330	0	67,632	1,012,698
<u>Garbage Fund</u>				
Garbage Truck Note	56,000	0	14,000	42,000
<u>Sewer Fund</u>				
OPWC Loan	436,557	0	45,196	391,361
FmHA Loan	2,599,000	0	35,000	2,564,000
OWDA Loan	2,009,540	0	108,431	1,901,109
Total Enterprise Fund Obligation	<u>\$6,712,832</u>	<u>\$ 0</u>	<u>\$288,504</u>	<u>\$6,424,328</u>

The Fire Truck note is for the purchase of a Pumper Fire Truck. The note is a direct obligation of the Fire Fund for which its full faith, credit and resources are pledged. Property and revenue of the Fire Fund have been pledged to repay this debt.

CITY OF WELLSTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

5. DEBT OBLIGATIONS (Continued)

The Ohio Water Development Authority (O.W.D.A.) loans are for utility construction projects. Property and revenue of the utility facilities have been pledged to repay these debts.

The Ohio Public Works Commission (O.P.W.C.) loans are for utility construction projects. Property and revenue of the utility facilities have been pledged to repay these debts.

The Farmer's Home Association (FmHA) loans are for sewer construction. Revenues from sewer usage fees finance this loan.

The Garbage Truck Note is for the purchase of a Garbage Truck. The note is a direct obligation of the Garbage Fund for which its full faith, credit and resources are pledged. Property and revenue of the garbage facility have been pledged to repay this debt.

Compensated Absences (sick leave and vacation benefits) will be paid from the fund from which the person is paid. Additions and deletions of accrued vacation and sick leave are shown net since it is impractical for the City to determine these amounts separately.

The annual requirement to amortize all enterprise fund debt outstanding as of December 31, 2001, including interest payments of \$3,046,083 are as follows:

	Farmers Home Loans Supported by Enterprise Revenues	OPWC Loan Supported by Enterprise Revenues	OWDA Loans Supported by Enterprise Revenues	Garbage Truck	Totals
2002	\$164,300	\$59,089	\$241,652	\$16,205	\$481,246
2003	164,500	81,687	241,652	15,470	503,309
2004	164,600	81,687	241,652	14,735	502,674
2005	164,600	81,687	241,652	0	487,939
2006	164,500	81,687	241,652	0	487,839
2007-2011	822,200	370,438	1,208,258	0	2,400,896
2012-2016	822,650	148,246	1,000,912	0	1,971,808
Thereafter	<u>2,634,700</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,634,700</u>
Totals	<u>\$ 5,102,050</u>	<u>\$ 904,521</u>	<u>\$3,417,430</u>	<u>\$46,410</u>	<u>\$9,470,411</u>
Less: Amount Representing Interest	<u>(2,538,050)</u>	<u>0</u>	<u>(503,623)</u>	<u>(4,410)</u>	<u>(3,046,083)</u>
Total Principal Requirements To Maturity	<u>\$ 2,564,000</u>	<u>\$ 904,521</u>	<u>\$ 2,913,807</u>	<u>\$42,000</u>	<u>\$ 6,424,328</u>

CITY OF WELLSTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2001

5. DEBT OBLIGATIONS (Continued)

The annual requirement to amortize all general long-term debt outstanding as of December 31, 2001, including interest payments of \$147,348 are as follows:

<u>Year Ending</u>	<u>Fire Truck</u>
2002	\$19,330
2003	19,330
2004	19,330
2005	19,330
2006	19,330
2007-2011	96,652
2012-2016	96,652
Thereafter	<u>72,322</u>
Total	<u><u>\$362,276</u></u>

6. PROPERTY TAX

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 1999. Real property taxes are payable annually or semiannually. The first payment is due March 14, with the remainder payable by August 13.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due October 31. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due June 15; if paid semiannually, the first payment is due April 30, with the remainder payable by October 31.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 35 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property tax on behalf of all taxing districts within the County. The County Auditor periodically remits to itself its share of the taxes collected. The City records receipt of these taxes in various funds.

CITY OF WELLSTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2001

6. PROPERTY TAX (Continued)

Accrued property taxes receivable represent delinquent taxes outstanding and real, tangible personal, and public utility taxes which were measurable and unpaid as of December 31, 2001. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2001 operations. The receivable and the portion of the tax levies prepaid by year end are therefore offset by a credit to deferred revenue.

The full tax rate for all City operations for the year ended December 31, 2001, was \$9.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2001 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	\$47,426,230
Public Utility Personal Property	3,595,070
Tangible Personal Property	<u>11,146,158</u>
Total Property Taxes	<u>\$62,167,458</u>

7. RECEIVABLES

Receivables at December 31, 2001 consisted of taxes, interest, accounts (billings for user charged services including unbilled utility services), and intergovernmental receivables arising from grants, entitlements and shared revenues. All receivables are considered fully collectible except accounts receivable related to utility services.

Loans receivable represents low interest loans for development projects and home improvements granted to eligible City residents and business under the Community Development Program.

The note receivable in the Enterprise Fund is the result of an agreement made in 1995 between the City and the Pillsbury Company, whereby the Pillsbury Company has agreed to make payments to the City for the retirement of a portion of the original \$1,525,191 OWDA loan. The agreement requires the note be repaid over 15 years at 10% interest.

A summary of the principal items of intergovernmental receivables (due from other governments) follows:

<i>General Fund:</i>	
Local Government	\$42,509
Municipal Court	<u>4,510</u>
Total General Fund	47,019
<i>Special Revenue Funds:</i>	
Gas Tax	53,360
Permissive Tax	35,136
Motor Vehicle Tax	17,837
Grants and Entitlements	<u>267,895</u>
Total Special Revenue Funds	374,228
<i>Enterprise Funds:</i>	
Grants and Entitlements	<u>390,000</u>
Total All Funds	<u>\$811,247</u>

CITY OF WELLSTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2001

8. FIXED ASSETS

General Fixed Assets: Changes in general fixed assets during 2001 were as follows:

	Balance @ <u>12/31/00</u>	Additions	Deletions	Balance @ <u>12/31/01</u>
Land	\$ 104,371	\$ 5,000	\$ 0	\$ 109,371
Buildings	2,885,275	46,104	0	2,931,379
Machinery & Equipment	326,909	111,162	0	438,071
Equipment Held Under Capital Leases	76,817	0	76,817	0
Vehicles	<u>684,101</u>	<u>5,000</u>	<u>0</u>	<u>689,101</u>
Total	<u>\$4,077,473</u>	<u>\$167,266</u>	<u>\$ 76,817</u>	<u>\$4,167,922</u>

Proprietary Fund Fixed Assets: A summary of the Proprietary Fund Types fixed assets as of December 31, 2001, follows:

	Balance @ <u>12/31/01</u>
Land	\$ 62,706
Buildings	8,290,863
Plant Improvement	2,971,783
Machinery & Equipment	472,433
Vehicles	356,678
Construction in Progress	387,239
Water/Sewer Lines	<u>2,673,726</u>
Total Assets	15,215,428
Accumulated Depreciation	<u>(3,383,815)</u>
Net Value of Assets	<u>\$ 11,831,613</u>

9. DEFINED BENEFIT RETIREMENT PLANS

Public Employees Retirement System: All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in the Public Employees Retirement System of Ohio (the "PERS of Ohio"), a cost-sharing multiple employer defined benefit pension plan. PERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Public Employees Retirement System of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the PERS of Ohio. Interested parties may obtain a copy by making written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS(7377).

CITY OF WELLSTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

9. DEFINED BENEFIT RETIREMENT PLANS (Continued)

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5%. The employer rate for local government employer units was 13.55%, of covered payroll; 4.3% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to PERS for the years ended December 31, 1999, 2000, and 2001 were \$152,788, \$169,595, and \$137,938 respectively, which were equal to the required contributions for each year.

Ohio Police and Fire Pension Fund: The City of Wellston contributes to the Ohio Police and Fire Pension Fund (the "Fund"), a cost-sharing multiple employer defined benefit pension plan administered by the State. The Fund provides retirement and disability benefits, annual cost of living adjustments, 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. The Fund issues a publicly available financial report that includes financial statements and required supplementary information.

This report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members (both policemen and firemen) are required to contribute 10.0% of their annual covered salary and employers are required to contribute 19.5% of annual covered payroll for policemen and 24.0% of annual covered payroll for firemen. The City's contributions to the Fund for the years ending December 31, 1999, 2000, and 2001 were \$21,128, \$39,657, and \$67,396 for the policeman; \$9,912, \$18,399, and \$31,082 for firemen, which were equal to the required contributions for each year.

10. POSTEMPLOYMENT BENEFITS

Public Employees Retirement System: The PERS of Ohio provides postemployment health care benefits to age service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients and primary survivor recipients of such retirants is available. A portion of each employer's contribution to the PERS of Ohio is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions and requires employers to fund postemployment health care through their contributions to the PERS of Ohio. The portion of the 2001 employer contribution rate (identified above) that was used to fund health care for the year 2001 was \$43,774, 4.3% of covered payroll.

The health inflation and significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the PERS of Ohio's latest actuarial review performed as of December 31, 2000. OPEB are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

The number of active contributing participants was 411,076. \$11,735.9 million represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2000. The actuarially accrued liability and the unfunded actuarial liability, based on the actuarial cost method used, were \$14,364.6 million and \$2,628.7 million, respectively.

CITY OF WELLSTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

10. POSTEMPLOYMENT BENEFITS (Continued)

Ohio Police and Fire Pension Fund: The Ohio Police and Fire Pension Fund provides postretirement health care coverage to any person who receives or is an eligible dependent child of such person. An eligible dependent child is any child under the age of eighteen whether or not the child is attending school or under the age of twenty two if attending school full-time or on a two thirds basis. The Ohio Revised Code Chapter 742 provides the authority allowing the Police and Firemen's Disability and Pension Fund's board of trustees to provide health care coverage and states that health care cost are included in the contribution rate. The contribution rate for Police is 19.5% and Firefighters is 24.0% of covered payroll of which 7.5% was applied to postemployment health care program. Health care funding and accounting is on a pay-as-you-go basis. In addition, most retirees are required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 2000, (the latest information available) was 12,853 for policemen and 10,037 for firefighters. The City's actual contributions in 2000 that were used to fund postemployment benefits was \$25,822 for police and \$9,713 for firefighters. The Fund's total health care expenses for the year ending December 31, 2000 were \$106,160,054, which was net of member contributions of \$5,657,431.

11. RISK MANAGEMENT

The City participates in various types of insurance plans in an effort to minimize risk exposure and to control claims and premium costs.

- A. Medical/surgical benefits, and prescription drugs are offered to employees through Community Health Plan.
- B. Worker's Compensation

The City is a participant in the Comp Management Worker's Compensation Rating Plan. Claims services are administered by Gates, McDonald and Company. In turn for substantial involvement by the City in accident prevention, the City receives lower worker's compensation rates through participation in the group plan.

CITY OF WELLSTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2001

11. RISK MANAGEMENT (Continued)

C. The City is exposed to various risks of loss related to torts, theft, or damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During 2001, the City contracted with several insurance agencies for liability, auto, and crime insurance. Insurance has a \$0 to \$2,500 deductible per occurrence.

Coverages provided by the insurance agencies are as follows:

General Liability	\$ 500,000
Public Officials Liability	1,000,000
Law Enforcement Liability	1,000,000
Inland Marine	Listed Covered Property @ \$193,880
Automobile	500,000
Faithful Performance and Employee Bond	10,000

In addition, the City maintains separate replacement cost insurance on buildings and contents in the amount of \$18,259,428 with 90% coinsurance.

The City has not incurred significant reductions in insurance coverage from coverage in the prior year by major category of risk. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

12. OTHER EMPLOYEE BENEFITS

Compensated Absences: Vacation leave is earned at rates which vary depending upon length of service and standard work week. Current policy credits vacation on the employee's anniversary date and is to be taken by the next anniversary date. Vacation time is not cumulative and must be taken during the year unless otherwise specified. City employees (or their estate) are paid for earned, unused vacation leave at the time of retirement or termination of employment if the employee has at least one year of service.

All full time City employees earn sick leave at the rate of 4.6 hours for every 80 hours of active service. Upon separation from the City, employees with credited service are paid 50%, up to a maximum of thirty (30) days, or 240 hours, of their accrued sick leave, or the full balance may be transferred to another governmental agency. Such payment shall be based on the employee's rate of pay at the time of separation. At December 31, 2001 the current amount of unpaid compensated absences in the governmental funds and the balance of the liability in the general long-term obligations account group were \$11,245 and \$50,182 respectively. The liability for compensated absences in the enterprise funds was \$53,630.

13. CONTINGENCIES

Grants

The City received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. Due to certain procedural matters involving the Community Development Block Grant (CDBG) Program, the Ohio Department of Development requested the return of the CDBG funds in July of 2002. In lieu of the return of the requested funds, the City has the option and has agreed to surrender any CDBG formula allocation grant funds and the right to apply for all competitive CDBG grants for a period of one year.

CITY OF WELLSTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

13. CONTINGENCIES (Continued)

Legal

The City is a defendant in a number of claims and lawsuits which may be classified as routine litigation in which minimal non-material damages are being sought. In the opinion of the City Solicitor, no material liability is anticipated.

14. SEGMENT INFORMATION - ENTERPRISE FUNDS

Financial segment information as of and for the year ended December 31, 2001 for the Enterprise Funds presented as follows:

	<u>Swimming Pool</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Water</u>	<u>Industrial Site</u>	<u>Total</u>
Operating Revenues	\$18,112	\$1,058,101	\$ 231,582	\$1,164,706	\$116,162	\$2,588,663
Operating Expenses Before Depreciation	16,784	600,837	251,824	954,537	124,402	1,948,384
Depreciation Expense	71	254,786	17,836	68,150	19,183	360,026
Operating Income/(Loss)	1,257	202,478	(38,078)	142,019	(27,423)	280,253
Grant Revenue	0	0	302,500	0	0	302,500
Net Income/(Loss)	1,257	317,849	(40,370)	130,309	(26,684)	382,361
Fixed Assets: Additions	0	233,293	3,726	11,990	0	249,009
Net Working Capital	(16,367)	940,670	(28,832)	515,500	(29,752)	1,381,219
Total Assets	888	9,784,771	95,965	3,036,945	653,549	13,572,118
OWDA Loans Payable	0	1,901,109	0	1,012,698	0	2,913,807
OPWC Loans Payable	0	391,361	0	513,160	0	904,521
FmHA Loans Payable	0	2,564,000	0	0	0	2,564,000
Total Equity	(15,625)	4,733,273	34,997	1,412,939	621,331	6,786,915

CITY OF WELLSTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2001

15. CHANGE IN ACCOUNTING PRINCIPLE - RESTATED FUND BALANCE/RETAINED EARNINGS

Changes in Accounting Principles For fiscal year 2001, the City has implemented GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*. The implementation of GASB Statements No. 33 and 36 had the following effect on fund balance at December 31, 2000:

	General	Special Revenue
Fund Balance at December 31, 2000	\$(120,871)	\$3,147,058
Implementation of GASB 33	14,170	35,319
Adjusted Fund Balance at January 1, 2001	\$(106,701)	\$3,182,377

Restatement of Fund Balances In the prior year, accrued interest payable was misstated in the Special Revenue Funds. This had the following effect on fund balance as it was previously reported as of December 31, 2000:

	Special Revenue
Fund Balance at December 31, 2000	\$3,147,058
Implementation of GASB 33	35,319
Restatement Amount	(286)
Adjusted Fund Balance at January 1, 2001	\$3,182,091

16. INTERFUND TRANSACTIONS

Interfund balances at December 31, 2001, consist of the following individual fund receivables and payables:

	Due From Other Funds	Due To Other Funds
General Fund	\$ 1,485	\$ 0
Special Revenue Funds:		
Income Tax Fund	5,281	0
Dare Fund	0	140
Sales Tax Fund	0	5,281
Cemetery Fund	0	44,141
Total Special Revenue Funds	5,281	49,562
Enterprise Funds:		
Pool Fund	0	14,976
McNally Fund	0	22,200
Water Fund	14,976	0
Sewer Fund	20,855	0
Total Enterprise Funds	35,831	37,176
Cemetery Trust Fund	44,141	0
Total All Funds	\$86,738	\$86,738

CITY OF WELLSTON, OHIO
Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2001

Federal Grantor / Pass through Grantor / Program Title	Pass through Entity Number	Federal CFDA Number	Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
<i>Passed through Ohio Department of Development:</i>			
Small Cities Community Development Block Grants -			
Appalachian Regional Commission Program	A-P-01-199-1	14.228	\$141,936
Water and Sanitary Sewer Competitive Program	A-W-00-199-1	14.228	72,788
Community Housing Improvement Program	A-C-99-199-1	14.228	56,807
			<u>271,531</u>
HOME Investment Partnership Grant	A-C-99-199-2	14.239	142,516
Total U.S. Department of Housing and Urban Development			<u>414,047</u>
Total Federal Awards Expenditures			<u><u>\$414,047</u></u>

Note 1 - Significant Accounting Policies

The City prepares its Schedule of Federal Awards Expenditures on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.

Note 2 - CDBG Rehabilitation and Revolving Loans

The City administers CDBG rehabilitation and revolving loan programs which are not reflected in the schedule above. During the year ended December 31, 2001, the City issued \$40,000 of new loans and received loan principal payments of \$65,748 under these loan programs. At December 31, 2001, the City reflects \$432,760 as loans receivable under these loan programs which is included in the balance sheet.

Note 3 - Matching Requirements

The City is required to contribute non-federal funds (matching funds) to support federally funded programs. The City has complied with the matching requirements. The expenditures of non-federal matching funds is not included in this schedule.

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

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

We have audited the financial statements of the City of Wellston, Ohio (the City), as of and for the year ended December 31, 2001 and have issued our report thereon dated August 20, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompany schedule of findings and questioned costs as items 2001-01, 2001-02 and 2001-03. We also noted other instances of noncompliance that we have reported to the management of the City in a separate letter dated August 20, 2002.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operations that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control over financial reporting that in our judgement, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. These reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2001-04, 2001-05 and 2001-06.

Members of Council
City of Wellston
Report on Compliance and on Internal Control over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider each of the items described above as reportable conditions to be material weaknesses.

We also noted other matters involving the internal control over financial reporting that we have reported to the management of the City in a separate letter dated August 20, 2002.

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

J. L. Uhrig & Associates, I nc.

J. L. UHRIG & ASSOCIATES, INC.

August 20, 2002

**Report on Compliance with Requirements Applicable to Each Major
Program and Internal Control over Compliance in Accordance with
OMB Circular A-133**

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

Compliance

We have audited the compliance of the City of Wellston, Ohio (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2001. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2001.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control over compliance that, in our judgement, could adversely affect the City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2001-07 and 2001-08.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above are material weaknesses.

We noted other matters involving the internal control over financial reporting that we have reported to the management of the City in a separate letter dated August 20, 2002.

This report is intended for the information and use of the Finance Committee, City Council, management, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

J. L. Uhrig & Associates, Inc.

J. L. UHRIG & ASSOCIATES, INC.

August 20, 2002

CITY OF WELLSTON, OHIO
 Schedule of Findings and Questioned Costs
 For the Year Ended December 31, 2001

A. SUMMARY OF AUDITOR'S RESULTS

1. Type of Financial Statement Opinion	Unqualified
2. Were there any material internal control weaknesses reported at the financial statement level (GAGAS)?	Yes
3. Were there any other reportable internal control weaknesses reported at the financial statement level (GAGAS)?	No
4. Was there any material noncompliance reported at the financial statement level (GAGAS)?	Yes
5. Were there any material internal control weaknesses reported for major federal programs?	Yes
6. Were there any other reportable internal control weaknesses reported for major federal programs?	No
7. Type of Major Program Compliance Opinion	Unqualified
8. Are there any reportable findings under § .510?	Yes
9. Major Program (list):	Small Cities Community Development Block Grants CFDA # 14.228
10. Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All Other Programs
11. Low Risk Auditee?	Yes

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

Finding Number 2001-01

Section 5705.09 of the Ohio Revised Code, in summary, states that each subdivision shall establish a general fund and other specific funds which are designed for specific purposes. Section 5705.10 of the Ohio Revised Code, in summary, further states that the money paid into any fund shall be used only for the purposes for which such fund is established.

CITY OF WELLSTON, OHIO
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2001

The City had several funds that carried a negative fund balance either throughout the year or at year end. These negative fund balances indicate that the City overspent the available cash balance in these funds, and therefore, used money from other funds which were established for a different purpose.

The City should closely monitor the activity of each fund and not allow any fund to be overspent.

Finding Number 2001-02

Section 5705.41(B) of the Ohio Revised Code, in summary, states that the City shall not make any expenditure of money unless it has been appropriated. An appropriation is a budgetary control account that represents the total authorized expenditures for a current fiscal period.

The City expended and encumbered monies in several funds that exceeded the appropriations adopted. This practice has resulted in several funds being overspent during the year.

The City should closely monitor each fund to determine that sufficient appropriations exist before any expenditures or encumbrances are made.

Finding Number 2001-03

Section 5705.41(D)(1), Ohio Revised Code, in summary, states that no order or contract involving expenditures of money is to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated.

The required certification of fund availability from the City Auditor was not obtained for all expenditures prior to incurring the obligation. The City should use purchase orders which reflect the City Auditor's certification for all expenditures. In the event of an emergency, then and now certificates can be used.

Section 5705.41(D)(3), Ohio Revised Code, in summary, states that upon certification by the City Auditor, a regular blanket order or contract involving expenditures of money, not in excess of five thousand dollars, may be appropriated to a specific line item account for a period not exceeding three months and not extending beyond the end of the fiscal year. In addition, a super blanket certificate may be issued for expenditures and contracts over \$5,000 from a specific line item account in a specific fund for most professional services, fuel, oil, food items and any other specific recurring and reasonably predictable operating expenses for a period not extending beyond the end of the fiscal year.

The City failed to cancel their regular blanket purchase orders after three months and even allowed some to exceed five thousand dollars. Additionally, the City allowed their super blanket purchase orders to be issued to more than one specific line item account and fund.

Finding Number 2001-04

Reconciliation of Bank Accounts

Timely preparation of a complete and accurate bank reconciliation is a key to maintaining adequate control over both cash receipts and disbursements. During much of the year, the bank account reconciliations were incomplete. Specifically, they contained unreconciled differences.

CITY OF WELLSTON, OHIO
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2001

By not reconciling the accounts on a monthly basis, errors or irregularities can go undetected and not be recognized and resolved on a timely basis. While the City eventually accounted for all unreconciled differences, a considerable amount of time had passed.

In order to strengthen the controls over cash and to have sound, reliable financial information for making decisions, we recommend that the City Auditor and City Treasurer reconcile all fund activity with the bank and resolve any differences immediately following the end of each month.

Finding Number 2001-05

Adequate Financial Records

The City has not maintained an adequate set of financial records. Certain receipts and disbursements were found to either be entered into the accounting system incorrectly or not entered at all. Additionally, the City had not entered all of the budgetary information into the accounting system on a timely manner. Such a system does not provide accurate and reliable financial information for making decisions.

The importance of a good accounting system cannot be overemphasized. Without adequate financial records, management is basing decisions on incomplete and/or inaccurate information during the year, and excessive time is spent at year end preparing and auditing the financial statements.

In order to provide sound, reliable financial information for making decisions, we recommend that the City institute the necessary controls over the financial records that will allow both the supporting documentation and budgetary information in the accounting system to be checked by council or by someone other than the person that has entered the information.

Finding Number 2001-06

General Fund

Expenditures in the General Fund continue to exceed revenues each year, thereby creating a cycle that is quickly eroding the cash balance in the Fund. While the City has re-enacted an income tax to address the immediate financial need for increased revenue, the General Fund will continue to experience financial difficulties if long-range plans are not made for the Fund.

The City should develop a five year projection of the activities in the General Fund. From this projection, the City should devise plans to both increase revenues and control expenditures of the Fund. The projection should address current revenue and financing sources available, additional revenue and financing sources needed, operational expenditures, capital expenditures, debt expenditures and other financing uses. Once developed, this projection can serve as a valuable financial tool to monitor the progress of the Fund and should be updated each year thereafter.

CITY OF WELLSTON, OHIO
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C. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

<i>Finding Number 2001-07</i>	
<i>CFDA Title and Number</i>	Small Cities Community Development Block Grants - Appalachian Regional Commission Program and Water and Sanitary Sewer Competitive Program, CFDA #14.228
<i>Federal Award Number / Year</i>	A-P-01-199-1/FYE: 12-31-01 A-W-00-199-1/FYE: 12-31-01
<i>Federal Agency</i>	Department of Housing and Urban Development
<i>Pass-Through Agency</i>	Ohio Department of Development

Internal Controls - Monitoring Activities for Davis-Bacon Act

All laborers and mechanics employed by contractors or subcontractors that work on construction contracts in excess of \$2,000 financed by federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor.

Further, management is required to provide monitoring controls to ensure that contractors and subcontractors are paying prevailing wage rates. This can be achieved through management reviews and on-site visits to monitor classifications and wage rates, as well as by comparing the reports from the contractors and subcontractors to data independently obtained by management to make sure that the contractors and subcontractors are complying with this law. We found no evidence to indicate that these monitoring activities were being performed by management.

We recommend that the City closely monitor the wages paid to the laborers and mechanics employed by contractors and subcontractors to be sure that prevailing wages are being paid and that the City is in compliance with the Davis-Bacon Act.

CITY OF WELLSTON, OHIO
 Schedule of Findings and Questioned Costs
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<i>Finding Number 2001-08</i>	
<i>CFDA Title and Number</i>	Small Cities Community Development Block Grants - Appalachian Regional Commission Program and Water and Sanitary Sewer Competitive Program, CFDA #14.228
<i>Federal Award Number / Year</i>	A-P-01-199-1/FYE: 12-31-01 A-W-00-199-1/FYE: 12-31-01
<i>Federal Agency</i>	Department of Housing and Urban Development
<i>Pass-Through Agency</i>	Ohio Department of Development

Internal Controls - Maintaining Sufficient Federal Grant Records

Federal grant funds are to be used for the purpose stated in the grant agreements and the expenditures are to be appropriately detailed in the accounting records in order to identify which federal program is used to pay for project expenditures. The City had two federal grants whereby the City did not provide an appropriate breakdown in the accounting records of the project expenditures made and charged to each federal program.

In addition, payments from federal agencies shall be made upon the timely submission of a "Request for Payment and Status of Funds Report". The City was unable to produce a copy of the "Request for Payment and Status of Funds Report", however, the funds for the federal grants were sent to the City by the federal pass-through agency.

The importance of a keeping good accounting system cannot be overemphasized. Without adequate records, it is extremely difficult to determine the accuracy of the information regarding the receipts or expenditures for federal funds.

We recommend that the City closely monitor the federal grant activities and keep adequate files and accounting records on each of the federal grant projects.

CITY OF WELLSTON, OHIO
 Corrective Action Plan
 For the Year Ended December 31, 2001

In accordance with OMB Circular A-133 § .315(c), the City has developed the following corrective action plan to address the findings contained in the schedule of findings and questioned costs.

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2001-07	The Mayor or his/her secretary will conduct monitoring reviews and on-site visits with the employees of the contractors and subcontractors to discuss prevailing wages being paid. The Mayor or his/her secretary will also make independent comparisons between payroll reports prepared by the contractors and subcontractors and data obtained from the Ohio Department of Labor.	Immediately	John Stabler, Mayor
2001-08	The appropriate fund and account detail will be established and maintained in the accounting records by the Auditor for federal funds and related federal projects. Caution will be exercised in the Mayor's office to retain all copies of the "Request for Status of Funds Report" for the City's files.	Immediately	Penny Green, Auditor John Stabler, Mayor



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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CITY OF WELSTON

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 19, 2002**