



**Auditor of State
Betty Montgomery**

CITY OF WELLSTON
JACKSON COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We have audited the accompanying general purpose financial statements of the City of Wellston, Jackson County, Ohio (the City), as of and for the year ended December 31, 2002, as listed in the table of contents. 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.

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

Generally accepted auditing standards require us to corroborate information furnished by management of the City concerning litigations, claims, and assessments. The primary means of such corroboration is through inquiry with the City's Lawyer. The City's Law Director did not respond to our inquiry concerning litigation, claims, and assessments.

The City did not maintain sufficient supporting documentation for all expenditures or expenses.

In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to examine sufficient evidence supporting all expenditures and expenses, and had we received a response concerning litigation, claims and assessments, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Wellston, Jackson County, as of December 31, 2002, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds 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 our report dated April 29, 2004 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 in considering the results of our audit.

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The accompanying Schedule of Federal Awards Expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general purpose financial statements. In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to examine sufficient evidence supporting expenditures and expenses as discussed in paragraph three above, it is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

April 29, 2004

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CITY OF WELLSTON, OHIO
 Combined Balance Sheet
 All Fund Types and Account Groups
 As of December 31, 2002

	GOVERNMENTAL FUND TYPES		
	General	Special Revenue	Capital Projects
Assets and Other Debits:			
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$127,066	\$703,564	\$2,801
Investments	0	2,303,703	0
Receivables:			
Taxes	713,479	503,651	0
Accounts	0	0	0
Accrued Interest	0	26,735	0
Notes Receivable	0	0	0
Due from Other Funds	102,895	0	0
Due from Other Governments	46,905	141,326	0
Materials and Supplies			
Inventory	2,812	11,735	0
Loans Receivable	0	488,384	0
Prepaid Items	1,412	2,373	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0
Other Debits:			
Amount to be Provided for Retirement of General Long-Term Obligations	0	0	0
Total Assets and Other Debits	\$994,569	\$4,181,471	\$2,801

PROPRIETARY FUND TYPES	FIDUCIARY FUND TYPE	ACCOUNT GROUPS		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Debt	
Enterprise	Trust and Agency			
\$826,944	\$171,041	\$0	\$0	\$1,831,416
0	154,938	0	0	2,458,641
0	0	0	0	1,217,130
292,617	0	0	0	292,617
0	1,403	0	0	28,138
326,664	0	0	0	326,664
0	0	0	0	102,895
0	0	0	0	188,231
14,281	0	0	0	28,828
0	0	0	0	488,384
19,595	0	0	0	23,380
11,807,899	0	4,282,838	0	16,090,737
0	0	0	304,327	304,327
<u>\$13,288,000</u>	<u>\$327,382</u>	<u>\$4,282,838</u>	<u>\$304,327</u>	<u>\$23,381,388</u>

(Continued)

CITY OF WELLSTON, OHIO
 Combined Balance Sheet
 All Fund Types and Account Groups
 As of December 31, 2002

	GOVERNMENTAL FUND TYPES		
	General	Special Revenue	Capital Projects
Liabilities, Fund Equity and Other Credits:			
Liabilities:			
Accounts Payable	\$24,143	\$35,147	\$0
Contracts Payable	0	75,960	0
Accrued Wages and Benefits	17,644	7,108	0
Compensated Absences Payable	2,355	5,805	0
Due to Other Funds	0	30,603	0
Due to Other Governments	15,505	16,017	0
Deferred Revenue	604,485	580,206	0
Deposits Held and Due to Others	0	0	0
Accrued Interest Payable	1,184	5,940	0
Notes Payable	0	0	0
Loans Payable	0	0	0
Total Liabilities	665,316	756,786	0
Fund Equity and Other Credits:			
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	488,384	0
Reserved for Inventory	2,812	11,735	0
Reserved for Encumbrances	28,191	103,069	600
Reserved for Prepaid Items	1,412	2,373	0
Reserved for Principal Endowment	0	0	0
Unreserved:			
Undesignated (Deficit)	296,838	2,819,124	2,201
Total Fund Equity (Deficit) and Other Credits	329,253	3,424,685	2,801
Total Liabilities and Fund Equity and Other Credits	\$994,569	\$4,181,471	\$2,801

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

PROPRIETARY FUND TYPES	FIDUCIARY FUND TYPE	ACCOUNT GROUPS		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Debt	
Enterprise	Trust and Agency			
\$152,302	\$0	\$0	\$0	\$211,592
219,263	0	0	0	295,223
22,554	0	0	0	47,306
54,480	0	0	48,978	111,618
72,292	0	0	0	102,895
64,070	0	0	0	95,592
87,500	0	0	0	1,272,191
0	18,502	0	0	18,502
89,192	0	0	0	96,316
528,000	0	0	255,349	783,349
6,125,679	0	0	0	6,125,679
<u>7,415,332</u>	<u>18,502</u>	<u>0</u>	<u>304,327</u>	<u>9,160,263</u>
0	0	4,282,838	0	4,282,838
3,944,677	0	0	0	3,944,677
1,927,991	0	0	0	1,927,991
0	0	0	0	488,384
0	0	0	0	14,547
0	0	0	0	131,860
0	0	0	0	3,785
0	204,347	0	0	204,347
<u>0</u>	<u>104,533</u>	<u>0</u>	<u>0</u>	<u>3,222,696</u>
<u>5,872,668</u>	<u>308,880</u>	<u>4,282,838</u>	<u>0</u>	<u>14,221,125</u>
<u>\$13,288,000</u>	<u>\$327,382</u>	<u>\$4,282,838</u>	<u>\$304,327</u>	<u>\$23,381,388</u>

CITY OF WELLSTON, OHIO
 Combined Statement of Revenues, Expenditures
 And Changes in Fund Balances
 All Governmental Fund Types
 For the Year Ended December 31, 2002

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Revenues:				
Taxes	\$917,973	\$422,776	\$0	\$1,340,749
Charges for Services	664	54,746	4,243	59,653
Fees, Licenses and Permits	17,471	23,156	0	40,627
Fines and Forfeitures	45,650	0	0	45,650
Intergovernmental	346,331	616,848	0	963,179
Program Income	0	52,181	0	52,181
Interest	15,533	10,401	0	25,934
Other	94,820	59,231	0	154,051
Total Revenues	1,438,442	1,239,339	4,243	2,682,024
Expenditures:				
Current:				
General Government:				
Legislative and Executive	410,535	0	0	410,535
Security of Persons & Property	583,031	478,849	0	1,061,880
Leisure Time Activity	0	46,618	0	46,618
Health	0	110,077	0	110,077
Transportation	0	537,375	0	537,375
Community Environment	0	27,292	0	27,292
Other	0	33,631	0	33,631
Capital Outlay	112,096	75,960	1,444	189,500
Debt Service:				
Principal Retirement	23,333	6,246	0	29,579
Interest and Fiscal Charges	3,006	19,024	0	22,030
Total Expenditures	1,132,001	1,335,072	1,444	2,468,517
Excess of Revenues Over (Under) Expenditures	306,441	(95,733)	2,799	213,507
Other Financing Sources (Uses):				
Proceed from Notes	70,000	0	0	70,000
Operating Transfers - In	0	52,000	0	52,000
Operating Transfers - Out	(129,967)	0	0	(129,967)
Total Other Financing Sources (Uses)	(59,967)	52,000	0	(7,967)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	246,474	(43,733)	2,799	205,540
Fund Balance (Deficit) at Beginning of Year Restated - See Note 16	82,779	3,468,418	2	3,551,199
Fund Balance (Deficit) at End of Year	\$329,253	\$3,424,685	\$2,801	\$3,756,739

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, 2002

	GENERAL		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Taxes	\$784,579	\$847,390	\$62,811
Charges for Services	615	664	49
Fees, Licenses and Permits	16,176	17,471	1,295
Fines and Forfeitures	42,266	45,650	3,384
Intergovernmental	320,765	346,445	25,680
Program Income	0	0	0
Interest	15,432	16,667	1,235
Rental	0	0	0
Other	87,792	94,820	7,028
Total Revenues	1,267,625	1,369,107	101,482
Expenditures:			
Current:			
General Government:			
Legislative and Executive	568,620	411,633	156,987
Security of Persons and Property	531,620	605,580	(73,960)
Health	0	0	0
Leisure Time Activity	0	0	0
Transportation	0	0	0
Community Environment	0	0	0
Other	0	0	0
Capital Outlay	0	112,096	(112,096)
Debt Service:			
Principal Retirement	23,333	23,333	0
Interest and Fiscal Charges	1,822	1,822	0
Total Expenditures	1,125,395	1,154,464	(29,069)
Excess of Revenues Over (Under) Expenditures	142,230	214,643	72,413
Other Financing Sources (Uses):			
Proceeds of Notes	64,811	70,000	5,189
Operating Transfers - In	0	0	0
Operating Transfers Out	(129,967)	(129,967)	0
Total Other Financing Sources (Uses)	(65,156)	(59,967)	5,189
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	77,074	154,676	77,602
Fund Balance at Beginning of Year	46,362	46,362	0
Fund Balance at End of Year	<u>\$123,436</u>	<u>\$201,038</u>	<u>\$77,602</u>

(Continued)

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, 2002
 (Continued)

	SPECIAL REVENUE			CAPITAL PROJECTS		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Taxes	\$460,628	\$429,851	(\$30,777)	\$0	\$0	\$0
Charges for Services	58,666	54,746	(3,920)	3,000	4,243	1,243
Fees, Licenses, and Permits	24,814	23,156	(1,658)	0	0	0
Fines and Forfeitures	0	0	0	0	0	0
Intergovernmental	793,785	740,749	(53,036)	0	0	0
Program Income	131,880	123,068	(8,812)	0	0	0
Interest	13,263	12,377	(886)	0	0	0
Rental	0	0	0	0	0	0
Other	63,472	59,231	(4,241)	0	0	0
Total Revenues	1,546,508	1,443,178	(103,330)	3,000	4,243	1,243
Expenditures:						
Current:						
General Government:						
Legislative and Executive	0	0	0	0	0	0
Security of Persons and Property	492,596	497,238	(4,642)	0	0	0
Health	104,684	120,950	(16,266)	0	0	0
Leisure Time Activity	50,867	49,140	1,727	0	0	0
Transportation	583,087	619,420	(36,333)	0	0	0
Community Environment	257,206	153,941	103,265	0	0	0
Other	4,560	33,631	(29,071)	0	0	0
Capital Outlay	0	0	0	2,500	2,044	456
Debt Service:						
Payment on Principal	6,246	6,246	0	0	0	0
Interest and Fiscal Charges	13,084	13,084	0	0	0	0
Total Expenditures	1,512,330	1,493,650	18,680	2,500	2,044	456
Excess of Revenues Over (Under)	34,178	(50,472)	(84,650)	500	2,199	1,699
Other Financing Sources (Uses):						
Other Financing Sources	0	0	0			
Proceeds of Notes	0	0	0			
Operating Transfers - In	55,723	52,000	(3,723)	0	0	0
Total Other Financing Sources (Uses)	55,723	52,000	(3,723)	0	0	0
Excess of Revenues and Other (Under) Expenditures and Other	89,901	1,528	(88,373)	500	2,199	1,699
Fund Balance at Beginning of Year	2,838,801	2,838,801	0	2	2	0
Fund Balance at End of Year	<u>\$2,928,702</u>	<u>\$2,840,329</u>	<u>(\$88,373)</u>	<u>\$502</u>	<u>\$2,201</u>	<u>\$1,699</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, 2002
 (Continued)

	TOTALS (MEMORANDUM ONLY)		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Taxes	\$1,245,207	\$1,277,241	\$32,034
Charges for Services	62,281	59,653	(2,628)
Fees, Licenses and Permits	40,990	40,627	(363)
Fines and Forfeitures	42,266	45,650	3,384
Intergovernmental	1,114,550	1,087,194	(27,356)
Program Income	131,880	123,068	(8,812)
Interest	28,695	29,044	349
Rental	0	0	0
Other	151,264	154,051	2,787
Total Revenues	<u>2,817,133</u>	<u>2,816,528</u>	<u>(605)</u>
Expenditures:			
Current:			
General Government:			
Legislative and Executive	568,620	411,633	156,987
Security of Persons and Property	1,024,216	1,102,818	(78,602)
Health	104,684	120,950	(16,266)
Leisure Time Activity	50,867	49,140	1,727
Transportation	583,087	619,420	(36,333)
Community Environment	257,206	153,941	103,265
Other	4,560	33,631	(29,071)
Capital Outlay	2,500	114,140	(111,640)
Debt Service:			
Principal Retirement	29,579	29,579	0
Interest and Fiscal Charges	14,906	14,906	0
Total Expenditures	<u>2,640,225</u>	<u>2,650,158</u>	<u>(9,933)</u>
Excess of Revenues Over (Under) Expenditures	176,908	166,370	(10,538)
Other Financing Sources (Uses):			
Proceeds of Notes	64,811	70,000	5,189
Operating Transfers - In	55,723	52,000	(3,723)
Operating Transfers Out	(129,967)	(129,967)	0
Total Other Financing Sources (Uses)	<u>(9,433)</u>	<u>(7,967)</u>	<u>1,466</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	167,475	158,403	(9,072)
Fund Balances at Beginning of Year	<u>2,885,165</u>	<u>2,885,165</u>	<u>0</u>
Fund Balances at End of Year	<u><u>\$3,052,640</u></u>	<u><u>\$3,043,568</u></u>	<u><u>(\$9,072)</u></u>

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, 2002

	PROPRIETARY FUND TYPES	FIDUCIARY FUND TYPES	Totals (Memorandum Only)
	Enterprise	Non-Expendable Trust	
Operating Revenues:			
Charges for Services	\$2,569,738	\$4,675	\$2,574,413
Investment Income	0	1,489	1,489
Other Operating Revenues	174,501	0	174,501
<i>Total Operating Revenues</i>	<u>2,744,239</u>	<u>6,164</u>	<u>2,750,403</u>
Operating Expenses:			
Salaries	775,234	0	775,234
Fringe Benefits	287,791	0	287,791
Purchased Services	80	0	80
Materials and Supplies	734,568	0	734,568
Depreciation	385,284	0	385,284
Contractual Services	1,037,831	0	1,037,831
Other	134,391	0	134,391
<i>Total Operating Expenses</i>	<u>3,355,179</u>	<u>0</u>	<u>3,355,179</u>
Operating Income (Loss)	<u>(610,940)</u>	<u>6,164</u>	<u>(604,776)</u>
Non-Operating Revenues (Expenses):			
Grant Revenue	200,000	0	200,000
Interest and Fiscal Charges	(198,912)	0	(198,912)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>1,088</u>	<u>0</u>	<u>1,088</u>
Income (Loss) Before Operating Transfers	(609,852)	6,164	(603,688)
Operating Transfers - In	77,967	0	77,967
Net Income (Loss)	(531,885)	6,164	(525,721)
Depreciation on Fixed Assets Acquired by Contributed Capital	61,207	0	61,207
Retained Earnings at Beginning of Year Restated - See Note 16	<u>2,398,669</u>	<u>302,716</u>	<u>2,701,385</u>
Retained Earnings at End of Year	<u>1,927,991</u>	<u>308,880</u>	<u>2,236,871</u>
Contributed Capital at Beginning of Year	4,005,884	0	4,005,884
Depreciation on Fixed Assets Acquired by Contributed Capital	(61,207)	0	(61,207)
Contributed Capital at End of Year	<u>3,944,677</u>	<u>0</u>	<u>3,944,677</u>
Total Fund Equity at End of Year	<u>\$5,872,668</u>	<u>\$308,880</u>	<u>\$6,181,548</u>

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 Fiscal Year Ended December 31, 2002

	PROPRIETARY FUND TYPES	FIDUCIARY FUND TYPES	Totals (Memorandum Only)
	Enterprise	Non-Expendable Trust	
<i>Increase (Decrease) in Cash and Cash Equivalents:</i>			
<i>Cash Flows from Operating Activities:</i>			
Cash Received from Customers	\$2,551,418	\$4,675	\$2,556,093
Cash Received from Other Operating Sources	221,168	0	221,168
Cash Payments to Suppliers for Goods and Services	(1,573,133)	0	(1,573,133)
Cash Payments to Employees for Services	(772,397)	0	(772,397)
Cash Payments for Employee Benefits	(270,076)	0	(270,076)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>156,980</u>	<u>4,675</u>	<u>161,655</u>
<i>Cash Flows from Noncapital Financing Activities:</i>			
Operating Grants Received	590,000	0	590,000
Operating Transfers In	77,968	0	77,968
Advance In	72,292	0	72,292
<i>Net Cash Provided by (Used for) Noncapital Financing Activities</i>	<u>740,260</u>	<u>0</u>	<u>740,260</u>
<i>Cash Flows from Capital and Related Financing Activities:</i>			
Proceeds from Sale of Notes	500,000	0	500,000
Payments for Capital Acquisitions	(741,250)	0	(741,250)
Principal Payments	(270,649)	0	(270,649)
Interest Payments	(192,274)	0	(192,274)
<i>Net Cash Provided by (Used for) Capital and Related Financing Activities</i>	<u>(704,173)</u>	<u>0</u>	<u>(704,173)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	193,067	4,675	197,742
Cash and Cash Equivalents at Beginning of Year	633,877	147,864	781,741
Cash and Cash Equivalents at End of Year	<u>\$826,944</u>	<u>\$152,539</u>	<u>\$979,483</u>
<i>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</i>			
Operating Income (Loss)	(\$610,940)	\$6,164	(\$604,776)
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</i>			
Depreciation	385,284	0	385,284
Changes in Assets and Liabilities:			
(Increase)/Decrease in Accounts Receivable	(18,320)	0	(18,320)
(Increase)/Decrease in Accrued Interest Receivable	0	(1,489)	(1,489)
(Increase)/Decrease in Contracts Payable	219,263	0	219,263
(Increase)/Decrease in Prepaid Items	(4,734)	0	(4,734)
Increase/(Decrease) in Accounts Payable	119,208	0	119,208
Increase/(Decrease) in Notes Receivable	46,667	0	46,667
Increase/(Decrease) in Accrued Wages and Benefits	4,914	0	4,914
Increase/(Decrease) in Compensated Absences Payable	850	0	850
(Increase)/Decrease in Due to Other Governments	14,788	0	14,788
Total Adjustments	<u>767,920</u>	<u>(1,489)</u>	<u>766,431</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$156,980</u>	<u>\$4,675</u>	<u>\$161,655</u>
Cash and Cash Equivalents - All Fiduciary Funds		171,041	
Cash and Cash Equivalents - Agency Funds		<u>18,502</u>	
Cash and Cash Equivalents - Non-Expendable Trust Fund		<u>\$152,539</u>	
The notes to the financial statements are an integral part of this statement			

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CITY OF WELLSTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

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, 2002

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, 2002

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.

The modified accrual basis of accounting is followed for governmental funds. The full accrual basis of accounting is followed for the proprietary fund types and non-expendable trust fund.

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, 2002

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, 2002, but which were levied to finance fiscal year 2003 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, 2002

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 represent estimates from the final amended certificate issued in 2002.

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 2002 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, 2002

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 2002, investments were limited to U.S. Treasury Notes, and STAROhio.

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 2002. 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, 2002.

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, 2002

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, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond December 31, 2002, 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, 2002

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, 2002 the City's contributed capital consisted of 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 encumbrances, 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, 2002

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, 2002

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, 2002

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 \$1,201,402 and the bank balance was \$1,328,353. Of the bank balance:

1. \$200,000 was covered by federal depository insurance; and
2. \$1,128,353 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		
<u>Investments:</u>					
U.S. Treasury Notes	\$ 0	\$2,443,466	\$ 0	\$2,443,466	\$2,458,641
State Treasury Pool	0	0	0	630,014	630,014
Total					
Investments	\$ 0	\$2,443,466	\$ 0	\$3,073,480	\$3,088,655

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, 2002

2. CASH DEPOSITS AND INVESTMENTS (Continued)

GASB 9 to GASB 3 Reconciliation

	<u>Cash & Cash Equivalents</u>	<u>Investments</u>
GASB 9 Balances	\$1,831,416	\$2,458,641
Star Ohio	<u>(630,014)</u>	<u>630,014</u>
GASB 3	<u>\$1,201,402</u>	<u>\$3,088,655</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 (Non-GAAP Basis) and Actual, 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>	<u>Capital Projects</u>
GAAP Basis	\$246,474	\$(43,733)	\$2,799
Adjustments:			
Revenue Accrual	(69,335)	203,839	0
Expenditure Accrual	5,728	(33,782)	0
Encumbrances	<u>(28,191)</u>	<u>(124,796)</u>	<u>(600)</u>
Budget Basis	<u>\$154,676</u>	<u>\$1,528</u>	<u>\$2,199</u>

CITY OF WELLSTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2002

4. ACCOUNTABILITY AND COMPLIANCE

A. Accountability

The following funds have a fund balance/retained earnings deficit as of December 31, 2002:

<i><u>Special Revenue Funds</u></i>	
Cemetery	\$35,059
Railroad Depot	922
DARE	264
Building	697
<i><u>Enterprise Funds</u></i>	
Pool	9,470

The Cemetery, Railroad Depot, DARE, Building, McNelly, Water Renovation, North Water, North Sewer Capital, and the Pool Funds have a cash deficit and are the results of overspending available resources. The General Fund is liable for any deficit in these funds.

B. Compliance

The following funds had expenditures plus encumbrances in excess of appropriations, at the legal level of appropriation, at December 31, 2002:

<i><u>General Fund</u></i>	\$29,071
<i><u>Special Revenue Funds</u></i>	
Fire Fund	8,531
Recreation Fund	340
Cemetery Fund	18,474
DARE Fund	517
Street Fund	120,787
UDAG Fund	84,440
<i><u>Enterprise Funds</u></i>	
McNelly Fund	902,562
Water Fund	768,648

CITY OF WELLSTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

4. ACCOUNTABILITY AND COMPLIANCE (Continued)

B. Compliance (Continued)

Enterprise Funds (Continued)

North Water Fund	396,378
Sewer Fund	218,726
North Sewer Fund	156,417
North Sewer Capital Fund	63,386
Pool Fund	8,255

The following funds had appropriations in excess of estimated resources at December 31, 2002:

Special Revenue Funds

Cemetery Fund	36,768
County Sales Tax Fund	15,191

5. DEBT OBLIGATIONS

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

Types / Issues	Outstanding at 12/31/01	Issued	Retired	Outstanding at 12/31/02
<i>General Long-Term Debt</i>				
Compensated Absences	\$ 50,182	\$ 0	\$ 1,204	\$ 48,978
Police Cruisers Note	0	70,000	23,333	46,667
Fire Truck Note	<u>214,928</u>	<u>0</u>	<u>6,246</u>	<u>208,682</u>
Total Long-Term Debt	<u>\$265,110</u>	<u>\$70,000</u>	<u>\$30,783</u>	<u>\$304,327</u>
<i>Enterprise Fund Obligations</i>				
<u>Water Fund</u>				
OPWC Loan	\$ 513,160	\$ 0	\$ 18,245	\$ 494,915
Water Revenue Bonds	0	500,000	0	500,000
OWDA Loan	1,012,698	0	68,984	943,714
<u>Garbage Fund</u>				
Garbage Truck Note	42,000	0	14,000	28,000
<u>Sewer Fund</u>				
OPWC Loan	391,361	0	22,598	368,763
USDA Rural Development Loan	2,564,000	0	36,000	2,528,000
OWDA Loan	<u>1,901,109</u>	<u>0</u>	<u>110,822</u>	<u>1,790,287</u>
Total Enterprise Fund Obligation	<u>\$6,424,328</u>	<u>\$500,000</u>	<u>\$270,649</u>	<u>\$6,653,679</u>

CITY OF WELLSTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2002

5. DEBT OBLIGATIONS (Continued)

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 General Fund have been pledged to repay this debt.

The Police Cruiser note is for the purchase of new Police Cruisers. The note is a direct obligation of the General Fund. Property and revenue of the General Fund have been pledged to repay this debt.

The Water Revenue Bonds are for a water meter project. Property and revenue of the utility facilities have been pledged to repay these debts.

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 USDA Rural Development 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, 2002, including interest payments of \$2,981,290 are as follows:

	USDA Rural Development Loans Supported by Enterprise Revenues	OPWC Loan Supported by Enterprise Revenues	OWDA Loans Supported by Enterprise Revenues	Garbage Truck	Water Revenue Bonds	Totals
2003	\$164,500	\$81,688	\$241,652	\$15,470	\$91,929	\$595,239
2004	164,600	81,688	241,652	14,735	89,000	591,675
2005	164,600	81,688	241,652	0	86,072	574,012
2006	164,500	81,688	241,652	0	83,143	570,983
2007	164,300	81,688	241,652	0	80,215	567,855
2008-2012	822,450	338,650	1,208,258	0	151,643	2,521,001
2013-2017	822,350	113,750	806,604	0	0	1,742,704
Thereafter	2,471,500	0	0	0	0	2,471,500
Totals	\$4,938,800	\$860,840	\$3,223,122	\$30,205	\$582,002	\$9,634,969

CITY OF WELLSTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

5. DEBT OBLIGATIONS (Continued)

The annual requirement to amortize all general long-term debt outstanding as of December 31, 2002, including interest payments of \$136,777 are as follows:

Year Ending	Fire Truck	Police Cruisers	Totals
2003	\$19,330	\$25,008	\$44,338
2004	19,330	24,172	43,502
2005	19,330	0	19,330
2006	19,330	0	19,330
2007	19,330	0	19,330
2008-2012	96,652	0	96,652
2013-2017	96,652	0	96,652
Thereafter	52,992	0	52,992
Total	<u>\$342,946</u>	<u>\$49,180</u>	<u>\$392,126</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, 2002

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, 2002. 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 2002 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, 2002, was \$9.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2002 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	\$47,710,560
Public Utility Personal Property	2,837,650
Tangible Personal Property	13,969,658
Total Property Taxes	<u>\$64,517,868</u>

7. RECEIVABLES

Receivables at December 31, 2002 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>4,396</u>
Total General Fund	46,905
<i>Special Revenue Funds:</i>	
Gasoline Tax	105,380
Permissive Tax	<u>35,946</u>
Total Special Revenue Funds	<u>141,326</u>
Total All Funds	<u>\$188,231</u>

CITY OF WELLSTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2002

8. FIXED ASSETS

General Fixed Assets: Changes in general fixed assets during 2002 were as follows:

	Restated Balance @ <u>12/31/01</u>	<u>Additions</u>	<u>Deletions</u>	Balance @ <u>12/31/02</u>
Land	\$109,371	\$ 0	\$ 0	\$ 109,371
Buildings	2,931,379	0	0	2,931,379
Machinery & Equipment	435,378	76,372	0	511,750
Vehicles	<u>698,187</u>	<u>54,201</u>	<u>22,050</u>	<u>730,338</u>
Total	<u>\$4,174,315</u>	<u>\$130,573</u>	<u>\$22,050</u>	<u>\$4,282,838</u>

Proprietary Fund Fixed Assets: A summary of the Proprietary Fund Types fixed assets as of December 31, 2002, follows:

	Balance @ <u>12/31/02</u>
Land	\$ 62,706
Buildings & Improvements	8,567,282
Plant Improvement	2,770,877
Machinery & Equipment	536,730
Vehicles	378,044
Construction in Progress	649,588
Water/Sewer Lines	<u>2,798,073</u>
Total Assets	15,763,300
Accumulated Depreciation	<u>(3,955,401)</u>
Net Value of Assets	<u>\$ 11,807,899</u>

9. DEFINED BENEFIT RETIREMENT PLANS

Ohio Public Employees Retirement System: All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in the Ohio Public Employees Retirement System of Ohio (OPERS), 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 Ohio Public Employees Retirement System of Ohio issues a stand-alone financial report. Interested parties may obtain a copy by making written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-6705 or 1-800-222-PERS(7377).

CITY OF WELLSTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

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% for employees other than law enforcement and public safety. The law enforcement classification consists of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. Public safety division members contribute at 9%. The 2002 employer contribution rate for local government employer units was 13.55%, of covered payroll. For both law enforcement and public safety, the employer rate was 16.70% of covered payroll.

The City's contributions to OPERS for the years ended December 31, 2000, 2001, and 2002 were \$169,595, \$137,938, and \$249,100 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, 2000, 2001, and 2002 were \$39,657, \$67,396, and \$51,138 for the policeman; \$18,399, \$31,082, and \$20,887 for firemen, which were equal to the required contributions for each year.

10. POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System: The Ohio Public Employees Retirement System (OPERS) provides postemployment health care benefits to age service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement service is considered an Other postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS 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 OPERS. For local government employer units the rate was 13.55% of covered payroll and 5% was the portion used to fund health care for the year.

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, 2001. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets.

The investment assumption rate for 2001 was 8%.

CITY OF WELLSTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

10. POSTEMPLOYMENT BENEFITS (Continued)

An annual increase of 4% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4% base increase, were assumed to range from .5% to 6.3%.

Health care costs were assumed to increase 4% annually.

The portion of the 2002 employer contribution rate that was used to fund health care for the year 2002 for local government employer was \$91,918, 5% of covered payroll.

OPEBs are advance-funded on an actuarially determined basis. The number of active contributing participants was 402,041. \$11.6 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2001. The actuarially accrued liability and the unfunded actuarial liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medial Spending Accounts.

Ohio Police and Fire Pension Fund: OP&F provides postretirement health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or 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 health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of OP&F shall be included in the employer's contribution rate. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll.

The Ohio Revised Code provides the statutory authority allowing OP&F's Board of Trustees to provide health care coverage to all eligible individuals.

Health care funding and accounting is on a pay-as-you go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.5 % and 7.75% of covered payroll in 2001 and 2002, respectively. In addition, since July 1, 1992, most retirees have been 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, 2001, (the latest information available) was 13,174 for Police and 10,239 for Firefighters. The City's actual contributions for 2002 that were used to fund postemployment benefits was \$20,302 for Police and \$6,747 for Firefighters. The Fund's total health care expenses for the year ending December 31, 2001 were \$122,298,771, which was net of member contributions \$6,874,699.

CITY OF WELLSTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2002

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.

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 2002, 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 \$22,693,850 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. Fire Department employees may hold 7 days (168 hours) of vacation in escrow for up to two years. 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.

CITY OF WELLSTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2002

12. OTHER EMPLOYEE BENEFITS Continued

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 a portion 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. OCSEA union employees with credited service are paid 50% up to a maximum of 45 days of their accrued sick leave, whereas Police and Fire union employees are paid 25% up to a maximum of 30 days. At December 31, 2002 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 \$8,160 and \$48,978 respectively. The liability for compensated absences in the enterprise funds was \$54,480.

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 liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2002.

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. INTERFUND TRANSACTIONS

Interfund balances at December 31, 2002, consist of the following individual fund receivables and payables:

	<u>Interfund</u> <u>Receivable</u>	<u>Interfund</u> <u>Payable</u>
General Fund	<u>\$102,895</u>	<u>\$ 0</u>
Special Revenue Funds:		
Railroad Depot Fund	0	737
DARE Fund	0	264
Building Fund	0	697
Cemetery Fund	<u>0</u>	<u>28,905</u>
Total Special Revenue Funds	0	30,603
Enterprise Funds:		
Pool Fund	0	9,977
McNelly Fund	<u>0</u>	<u>62,315</u>
Total Enterprise Funds	<u>0</u>	<u>72,292</u>
Total All Funds	<u>\$102,895</u>	<u>\$102,895</u>

CITY OF WELLSTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

15. SEGMENT INFORMATION - ENTERPRISE FUNDS

Financial segment information as of and for the year ended December 31, 2002 for the Enterprise Funds presented as follows:

	<u>Swimming Pool</u>	<u>Sewer</u>	<u>Sanitation System</u>	<u>Water</u>	<u>Industrial Site</u>	<u>Total</u>
Operating Revenues	\$21,277	\$922,716	\$205,768	\$1,501,402	\$93,076	\$2,744,239
Operating Expenses Before Depreciation	27,422	739,617	243,211	1,831,654	127,991	2,969,895
Depreciation Expense	71	272,622	21,739	71,575	19,277	385,284
Operating Income/(Loss)	(6,216)	(89,523)	(59,182)	(401,827)	(54,192)	(610,940)
Non-Operating Revenue	0	0	200,000	0	0	200,000
Net Income/(Loss)	14,284	(137,483)	83,960	(438,454)	(54,192)	(531,885)
Fixed Assets: Additions	0	456,986	0	284,264	0	741,250
Net Working Capital	(10,112)	394,034	15,602	300,251	(68,827)	630,948
Total Assets	793	9,322,305	168,427	3,167,111	629,364	13,288,000
Garbage Truck Note	0	0	28,000	0	0	28,000
OWDA Loans Payable	0	1,790,287	0	943,714	0	2,734,001
OPWC Loans Payable	0	368,763	0	494,915	0	863,678
USDA Rural Development Loans Payable	0	2,528,000	0	0	0	2,528,000
Water Revenue Bonds Payable	0	0	0	500,000	0	500,000
Total Equity	(11,975)	4,405,710	29,356	892,421	557,156	5,872,668

CITY OF WELLSTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2002

16. RESTATED FUND BALANCE/RETAINED EARNINGS

Restatement of Fund Balances/Retained Earnings Due to accounting errors in the prior year, the following balances were restated from amounts previously reported. These restatements had the following effect on fund balance/retained earnings as they were previously reported as of December 31, 2001:

	General	Special Revenue	Enterprise	Non- Expendable	General Fixed Assets
Balance at December 31, 2001	\$(24,282)	\$3,430,095	\$2,781,031	\$286,442	\$4,167,922
Restatement Amount	107,061	38,323	(382,362)	16,274	6,393
Adjusted Balance at January 1, 2002	\$82,779	\$3,468,418	\$2,398,669	\$302,716	\$4,174,315

17. ENVIRONMENTAL CONTINGENCY

On June 25, 1991 the United States of America, (on behalf of the United States Environmental Protection Agency, (U.S. EPA)), State of Ohio and City of Wellston filed a Consent Decree with the United States District Court, for the Southern District of Ohio, Eastern Division, (the Court), to resolve a complaint, (Civil Action No. C2-87-1216), filed by the United States of America, (on behalf of the U.S. EPA), on October 31, 1987. On September 15, 1991, the Court ordered the said Consent Decree be entered as the Judgement and Decree of the Court in this case. Part V Compliance Program, Section B Additional Remedial Action, paragraph 8f of said Consent Decree states "On or before June 15, 1996, Wellston shall complete all work necessary under the approved report to reduce inflow into the collection system or necessary to comply with all terms and conditions of its National Pollutant Discharge Elimination System ("NPDES") Permit." Part VIII Stipulated Penalties, paragraph 20 of said Consent Decree states, in part, if the City fails to comply with the Additional Remedial Actions at paragraph 8 of this Decree, the City shall be liable to the United States for stipulated penalties as follows for each day of each violation:

Duration	Amount
1-7 days	\$200 per day
8-30 days	\$300 per day
over 30 days	\$500 per day

As of December 31, 2002, the City had performed all work required under the approved report to reduce inflow into the collection system, however, it did not result in a sufficient reduction of inflow to comply with all terms and conditions of the Consent Decree. The City has evaluated the EPA's requirements and believes it is not possible to reduce inflow to the levels required. The EPA has not assessed the stipulated penalties which are estimated to be \$1,188,300, as of December 31, 2002, and growing at the rate of \$500 per day. The City is currently in contact with the U.S. EPA in an effort to dissolve the Consent Decree. Since the ultimate outcome of this matter is undeterminable, the City has not recorded the stipulated penalties as a liability.

18. RELATED PARTIES

During 2002 the City acquired various products and services from Woolum's Business Products, Benson's Garage and Clark's Garage for a total of \$9,772, \$5,000, and \$19,786 respectively. These local businesses were owned by Council Members, Keith Woolum, Brad Benson, and Tom Clark respectively.

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**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2002**

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity or Program Number	Disbursements
UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Pass through Ohio Department of Development:</i>			
Community Development Block Grants/State's Program:			
Appalachian Regional Commission Program	14.228	A-P-01-199-1	\$58,064
Water and Sanitary Sewer Competitive Program	14.228	A-W-00-199-1	317,212
Community Housing Improvement Program	14.228	A-C-99-199-1	<u>130,159</u>
Total Community Development Block Grants/State's Program			<u>505,435</u>
HOME Investment Partnerships Grant	14.239	A-C-99-199-2	<u>108,561</u>
Total United States Department of Housing and Urban Development			613,996
UNITED STATES DEPARTMENT OF JUSTICE			
<i>Direct from the Federal Government</i>			
Public Safety Partnership and Community Policing Grants	16.710	2002SHWX0709	20,462
		2000UMWX0184	<u>69,755</u>
Total Public Safety Partnership and Community Policing Grants			<u>90,217</u>
Total United States Department of Justice			<u>90,217</u>
TOTAL FEDERAL AWARDS EXPENDITURES			<u><u>\$704,213</u></u>

The Notes to the Schedule of Federal Awards Expenditures are an integral part of the Schedule.

**CITY OF WELLSTON
JACKSON COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
DECEMBER 31, 2002**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the City's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B – CDBG REHABILITATION AND REVOLVING LOANS

The City administers Community Development Block Grant (CDBG) rehabilitation and revolving loan programs which are not reflected in the schedule above. During the year ended December 31, 2002, the City did not issue any new loans and received principal payments of \$39,586 under these loan programs. At December 31, 2002, the City reflects \$218,991 as loans receivable under these loan programs. The City required machinery, equipment, furniture and furnishings as collateral for these loans. There are no material receivables deemed uncollectible.

NOTE C – 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.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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

To the City Council:

We have audited the accompanying general purpose financial statements of the City of Wellston, Jackson County, Ohio (the City), as of and for the year ended December 31, 2002, and have issued our report thereon dated April 29, 2004, wherein we noted we were unable to obtain sufficient evidential matter for all expenditures and expenses and wherein we noted we did not receive a response from the City's Law Director regarding outstanding litigation.

Compliance

As part of our engagement, 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 general purpose financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement 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 accompanying Schedule of Findings as items 2002-001 through 2002-015. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated April 29, 2004.

Internal Control Over Financial Reporting

In planning and performing our engagement, we considered the City's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the general purpose 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 operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2002-005 through 2002-007, 2002-09 through 2002-011, 2002-014 through 2002-018.

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 general purpose financial statements 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. We believe reportable conditions 2002-005 through 2002-007, 2002-009 through 2002-011, 2002-014 through 2002-017 described above are material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the City in a separate letter dated April 29, 2004.

This report is intended solely for the information and use of the management, the City Council, 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.



Betty Montgomery
Auditor of State

April 29, 2004



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

To the City Council:

Compliance

We have audited the accompanying general purpose financial statements of the City of Wellston, Jackson County, 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, as of and for the year ended December 31, 2002, as listed in the table of contents. 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.

As described in items 2002-019, 2002-020 and 2002-022 in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding Cash Management, Special Tests and Provisions - Environmental Review, Davis Bacon Act, and Allowable Costs that are applicable to its Community Development Block Grant Program. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to that program.

In our opinion, because of those instances of noncompliance referred to in the preceding paragraph, the City of Wellston did not comply, in all material respects with the requirements referred to above that are applicable to its Community Development Block Grant (major federal program) for the year ended December 31, 2002. The results of our auditing procedures also disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings as item 2002-021.

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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 operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2002-022 and 2002-023.

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, of the reportable conditions described above, we believe reportable condition 2002-022 is a material weakness. We noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the City in a separate letter dated April 29, 2004.

This report is intended for the information and use of the management, the City Council, and 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.



Betty Montgomery
Auditor of State

April 29, 2004

CITY OF WELLSTON
JACKSON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133
DECEMBER 31, 2002

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Qualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Adverse
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Community Development Block Grant Program C.F.D.A. #14.228
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133
DECEMBER 31, 2002**

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

Finding Number 2002-001

Finding for Recovery

While employed as the Mayor’s Secretary, it was Melissa Fitch’s responsibility to collect building permits, demolition permits, peddler permits, depot rent and deposits, big haul fees, amusement license fees and other miscellaneous collections. Moneys collected by the Mayor’s office were to be deposited with the City Treasurer. We found Mayor’s office receipts signed by Melissa Fitch from the period January 1, 2001 through August 31, 2003 that were not deposited with the City Treasurer or to the City’s designated depository as follows:

Type of Collection	Amount			Total Unaccounted For	Fund
	Unaccounted For 1/1/01 -12/31/01	Unaccounted For 1/1/02 -12/31/02	Unaccounted For 1/1/03 -8/31/03		
Building Permit	\$ 925.00		\$310	\$1,235	General
Demolition Permit	40.00		20.00	60.00	General
Peddler Permit	510.00		10.00	520.00	General
Big Haul Fees	60.00			60.00	General
Amusement License			300.00	300.00	General
Miscellaneous			72.59	72.59	General
Total General	1,535.00	-	712.59	2,247.59	
Depot Rent & Deposits	795.00	700.00	400.00	1,895.00	Depot
Total All Funds	\$ 2,330.00	700.00	1,112.59	4,142.59	

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money collected but unaccounted for is hereby issued against Melissa Fitch and CNA Surety, the City of Wellston’s bonding company, in the amount of \$2,247.59 in favor of the General Fund and in the amount of \$1,895 in favor of the Railroad Depot Fund for the period January 1, 2001 through August 31, 2003.

Finding Number 2002-002

Finding for Recovery Repaid Under Audit

Resolution 1187 provides in part” ...it has been determined by the Legislative authority of the City of Wellston that the minutes of this body do not accurately reflect that action taken. ... The Legislative Authority of the City of Wellston hereby corrects the journal of the proceedings herein to reflect that elected officials of the City of Wellston that did not participate in the City’s plan of health insurance shall be reimbursed the sum of \$1,000 per year for the years 2000, 2001 and 2002.”

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133
DECEMBER 31, 2002
(Continued)**

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

Finding Number 2002-002 (Continued)

Finding for Recovery Repaid Under Audit (Continued)

The Mayor's reimbursement for health insurance exceeded the amount provided for in Resolution 1187 for year 2000; however, the Mayor did not receive reimbursement for two months in 2001. Therefore, the finding for recovery is calculated as follows:

Year	Number of Months without the City's Insurance	Amount Allowed per Resolution 1187	Amount Reimbursed	Variance
2000	12	\$ 1,000.00	\$ 1,500.00	\$(500.00)
2001	2	166.66	0.00	166.66
Total	14	\$1,166.66	\$1,500.00	(\$333.34)

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for public monies illegally expended is hereby issued against John Stabler, former City Mayor in the amount of \$333.34 in favor of the City's General Fund.

As of March 11, 2004, John Stabler had repaid \$333.34 to the City.

Finding Number 2002-003

Finding for Recovery Repaid Under Audit

Resolution 1187 provides in part" ...it has been determined by the Legislative authority of the City of Wellston that the minutes of this body do not accurately reflect that action taken. ... The Legislative Authority of the City of Wellston hereby corrects the journal of the proceedings herein to reflect that elected officials of the City of Wellston that did not participate in the City's plan of health insurance shall be reimbursed the sum of \$1,000 per year for the years 2000, 2001 and 2002."

Ordinance 3498 provides that the City of Wellston shall pay the health insurance benefits for the Auditor and family, if applicable. If the Auditor does not take any health insurance benefits, he/she will be paid a stipend of one thousand five hundred dollars (\$1,500) at the end of the calendar year. While it is not clear on the face of Ordinance 3498, the Council intended for the insurance provision of the ordinance to take effect January 1, 2004.

The City Auditor's reimbursement for health insurance exceeded Resolution 1187 for the years 2000 and 2002. In addition, the City Auditor was reimbursed for 2003, but, no ordinance was located for reimbursement of health insurance for 2003. Ordinance 1197 was passed on January 8, 2004 to correct this issue.

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133
DECEMBER 31, 2002
(Continued)**

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

Finding Number 2002-003 (Continued)

Finding for Recovery Repaid Under Audit (Continued)

Therefore, the finding for recovery is calculated as follows:

Year	Number of Months without the City's Insurance	Amount Allowed per Resolution 1187	Amount Reimbursed	Variance
2000	12	\$ 1,000	\$ 1,500	\$ (500)
2001	12	1,000	1,000	-
2002	12	1,000	1250	(250)
2003	12	1,000	1250	(250)
Total		\$ 4,000	\$ 5,000	\$ (1,000)

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Penny Green, former City Auditor, and State Automobile Mutual Insurance Company, her bonding company, jointly and severally, in the amount of \$500 for the period January 1, 2000 through January 1, 2002 in favor of the City's General Fund, and a Finding for Recovery for public money illegally expended is hereby issued against Penny Green, former City Auditor, in the amount of \$500 for the period January 2, 2002 through December 31, 2003 in favor of the City's General Fund.

As of April 22, 2004, Penny Green had repaid \$1,000 to the City.

Finding Number 2002-004

Noncompliance Citation

Rural Development Loan 92-05 (First Mortgage Revenue Bonds) requires a monthly payment into the Wastewater Treatment Reserve Account. Per the bond transcript, Section 7 paragraph 4, ...there shall be set aside and deposited each month in an account entitled "Wastewater Treatment Reserve Account" (hereafter called the Reserve Account) an amount equal to 1/120 of the Reserve Amount defined below until there is accumulated in such fund a sum (the "reserve amount") equal to 10% of the amount of the Revenue Bonds(\$2,000,000), after which no further deposits need be made into said account except to replace withdrawals.

The required reserve amount is calculated at \$200,000 (10% of \$2,000,000). The required monthly payment of \$1,667 (1/120 of \$200,000) was discontinued before the city reached the required reserve amount. At December 31, 2002, the Wastewater Treatment Reserve Account had a balance of \$130,650 and no monthly payments were made into this account during 2002. Since no payments have been made from the Reserve Account, the entire \$200,000 should have been accumulated at December 31, 2002. The General Purpose Financial Statements have been adjusted to reflect the reserve balance in the correct fund.

We recommend the City establish procedures to ensure debt covenants are being followed.

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133
DECEMBER 31, 2002
(Continued)**

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

Finding Number 2002-005

Material Weakness/Noncompliance Citation

Ohio Rev. Code Section 135.14(D) states that except as provided in division (E) of this section, any investment made pursuant to this section must mature within five years from the date of settlement, unless the investment is matched to a specific obligation or debt of the subdivision.

As of December 31, 2002, the brokerage firm (Merrill Lynch) portfolios for the Permanent Investment account included one U.S. Treasury Inflation Note and the Cemetery Investment account included one U.S. Treasury Inflation Note with maturity dates greater than five years. During 2002, the Permanent Investment account also held Federal National Mortgage Association Notes with maturities greater than five years.

We recommend the City Treasurer work with the brokerage firm (Merrill Lynch) to assure that only securities approved by Ohio Revised Code Section 135.14 and 133.03(A)(1) are included in the investment portfolio. We also recommend that the City consult with its legal counsel regarding the requirements of the Revised Code for securities.

Finding Number 2002-006

Material Weakness/Noncompliance Citation

Ohio Rev. Code Section 135.14 provides:

- Investment or deposit under Section 135.14 cannot be made unless a written investment policy approved by the treasurer or governing board is on file with the Auditor of State, with the following two exceptions:
 - If a written investment policy is not filed with the Auditor of State, the treasurer or governing board is permitted to invest only in interim deposits, STAROhio, or no-load money market mutual funds.
 - A subdivision whose average annual portfolio of investments is \$100,000 or less is not required to file an investment policy, provided that the treasurer or governing board certifies to the Auditor of State that the treasurer or governing board will comply with the provisions of sections 135.01 to 135.21 of the Revised Code.
- The investment policy must be signed by:
 - All entities conducting investment business with the treasurer or governing board (except the Treasurer of State);
 - All brokers, dealers, and financial institutions, described in Section 135.14(M)(1), initiating transactions with the treasurer or governing board by giving advice or making investment recommendations;

CITY OF WELLSTON
JACKSON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133
DECEMBER 31, 2002
(Continued)

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

Finding Number 2002-006 (Continued)

Material Weakness/Noncompliance Citation (Continued)

- All brokers, dealers, and financial institutions, described in Section 135.14(M)(1), executing transactions initiated by the treasurer or governing board.

The Investment policy provided by the brokerage firm (Merrill Lynch) was not on file with the Auditor of State. The policy was not signed by the broker or First National Bank.

In addition, Ohio Revised Code Section 135.14 provides that investments may not be made unless the government reasonably expects the investment can be held until maturity. Merrill Lynch has actively traded securities in both the City's Permanent Investment Account and Cemetery Perpetual Care Account prior to maturity.

We recommend the City Treasurer work with its broker and the City Law Director to develop an investment policy which includes the provisions of Ohio Revised Code 135.14. In addition, we recommend the City only make investments in which the City reasonably expects to be held until its maturity.

Finding Number 2002-007

Material Weakness/Noncompliance Citation

Ohio Rev. Code Section 135.13 states that interim deposits shall 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, but not limited to, passbook accounts. Ohio Rev. Code Sections 135.14(B)(3), 135.08, and 135.09 require interim deposits to be awarded to eligible institutions who properly apply with the legislative authority. Ohio Rev. Code Section 135.03 specifies which financial institutions are eligible to become public depositories.

The City has four certificates of deposit in the Permanent Investment Account and two certificates of deposit in the Cemetery Investment Account with a brokerage firm (Merrill Lynch) deposited in various banks throughout the country and Puerto Rico. All of these deposits will mature more than one year from the date of deposit.

We recommend the City award interim deposits only to an eligible institution(s) which properly apply with the City to become a public depository, and that the City ensures that their certificates of deposit for interim deposits mature no more than twelve months after their issue date.

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133
DECEMBER 31, 2002
(Continued)**

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

Finding Number 2002-008

Noncompliance Citation

Ohio Rev. Code Section 735.05 provides that when an expenditure within the department of public service, other than the compensation of persons employed in the department, exceeds \$15,000 (which was increased to \$25,000 as of September 26, 2003), the expenditure shall first be authorized and directed by ordinance of the city legislative authority. When so authorized and directed, the director shall make a written contract with the lowest and best bidder after advertisement for not less than two nor more than four consecutive weeks in a newspaper of general circulation within the city.

The City of Wellston is completing a water meter project where water meters were purchased in two phases. There was no record that phase one of the water meter installation project was bid, but we noted that on three separate dates, April 26, 2001, May 11, 2001 and June 11, 2001, 103 water meters were purchased at a price of \$9,950 from US Filter for a combined purchase price of \$29,850.

On September 24, 2002, the Mayor awarded US Filter the contract for the second phase of the water meter replacement project in the amount of \$270,750. This phase was advertised for bid with the lowest bid being \$164,275. The difference between the lowest bid and the bid accepted was \$106,475. However, in a letter to the Mayor, the City Law Director advised the City not to award the contract to the lowest bidder, Buckeye State, because Buckeye State's bid did not meet bid specifications. The bid file provided for audit did not include the specifications that were used in the bid advertisement. When asked to provide the specifications used in the advertisement, the Mayor provided us with specifications submitted by US Filter. According to the Mayor, in order to be compatible with the first meters purchased, the specifications of the first meters were used to advertise for the second phase.

The Record of Proceedings did not indicate Council's approval to award the contract to US Filter for the second phase, nor did it approve the purchase of the meters for the first phase. Council did approve the appropriations for the second phase of the project, but they did not formally approve the final contract.

We recommend that the City follow compliance bidding procedures, as stated above, for all contracts which exceed \$25,000. The City should maintain documentation within their records to indicate compliance with Ohio laws.

Finding Number 2002-009

Material Weakness/Noncompliance Citation

Ohio Rev. Code Section 149.351(A) establishes guidelines against the destruction or damage of records. All records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided under section 149.38 to 149.42 of the Ohio Revised Code.

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133
DECEMBER 31, 2002
(Continued)**

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

Finding Number 2002-009 (Continued)

Material Weakness/Noncompliance Citation - Ohio Rev. Code Section 149.351(A) (Continued)

We noted the following public records issues during our audit:

- The City did not maintain sufficient supporting documentation, such as invoices or statements for forty percent of the non-payroll transactions tested,
- Seven per cent of the vouchers requested were not available for review,
- The City was unable to locate the December 31, 2002 Outstanding Purchase Order report and was unable to provide documentation to support the total outstanding encumbrances at year end,
- Mayor's receipt books and supporting schedules could not be located for 2002,
- Several debt agreements were not available at the City; however, we were able to obtain copies from the lending institutions
- Some contracts and related documents were not available at the City; however, we were able to obtain copies of the needed information from the contractors.

Inadequate supporting documentation eliminates a significant control point, obscures the audit trail and provides the opportunity for errors and irregularities to occur and remain undetected by management for an extended period of time. In addition, the lack of adequate supporting documentation could result in the City making inappropriate disbursements for goods or services not actually received by the City. Further, failure to retain such documentation has resulted in a qualified audit opinion regarding the City's expenditures, expenses and outstanding encumbrances.

To correct these deficiencies, we recommend that no payment be made from the City treasury that is not supported by an approved voucher package that would include, at a minimum, an original invoice or receipt and a properly executed purchase order. In addition, all records supporting receipts, federal programs, debt and contracts should be retained.

Finding Number 2002-010

Material Weakness/Noncompliance Citation

Ohio Rev. Code Section 733.11 states in part that the city auditor shall keep the books of the city and exhibit accurate statements of all moneys received and expended. Ohio Rev. Code Section 733.43 states in part that the city treasurer shall keep accurate account of all money received and disbursed and shall arrange the books that the amount received and paid on account of separate funds, or specified appropriations, shall be exhibited in separate accounts. Ohio Rev. Code Section 733.14 states in part that the city auditor shall countersign each receipt given by the city treasurer before it is delivered to the person entitled to receive it and shall charge the city treasurer with the amount thereof.

Monthly reconciliations of the bank account balance to the City's ending book balance were not properly performed by the City. Although the City Treasurer did prepare a monthly report comparing the City Auditor's book balance to the City Treasurer's balance and then comparing the City Treasurer's balance to the bank balance, the reports contained errors and each month required an unexplained adjusting factor, (designated by the City Treasurer as "In Transit Adjustments"), to reconcile the Treasurer's balance with the bank balance. These reconciliations were not accurate in the following manner:

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133
DECEMBER 31, 2002
(Continued)**

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

Finding Number 2002-010 (Continued)

Material Weakness/Noncompliance Citation - Ohio Rev. Code Sections 733.11, 733.43, and 733.14 (Continued)

- The recorded amount of the January 1, 2002 balance in the City Auditor's Statement of Cash Position was incorrect due to errors in the year ended December 31, 2001 and due to unauthorized adjustments to beginning balances that were made during 2002, causing a net reduction of beginning fund balance in the amount of \$3,014.55.
- The recorded dollar amount of disbursements in the City Auditor's Statement of Cash Position for the year ended December 31, 2002 contained errors as illustrated below:

Description of Error	Effect on Book Balance
Check/Bank charges not posted	\$ (311.00)
Checks cleared for more/less than posted	8,311.08
Checks not posted but cleared bank	(474,952.19)
Checks listed as void, but cleared bank	(200.00)
Checks actually void, but still listed in system	33,621.68
Checks posted twice	120,205.87
Checks voided twice	(13,554.03)
Disbursement postings with no explanation	570.06
Total	\$(326,308.53)

- The recorded amount of receipts in the City Auditor's Statement of Cash Position for the year ended December 31, 2002 contained errors as illustrated below:

Description of Error	Effect on Book Balance
Interest not posted	\$ 5,938.01
Proceeds of Bonds not posted	500,000.01
Receipts not posted	11,458.58
Receipts posted twice	(607.08)
Receipt transposition error	(180.00)
Receipts written for more/less than posted	(29.71)
Receipt postings with no explanation	(50,127.52)
Total	\$466,452.29

- The Treasurer's outstanding check list at December 31, 2002 contained errors as illustrated below:

Description of Error	Effect on o/s check list
Checks on list that had already cleared	\$(11,027.02)
Checks not on list that had not cleared	4,117.35
Checks voided by Auditor but still on list	(891.90)
Total	\$ (7,801.57)

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133
DECEMBER 31, 2002
(Continued)**

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

Finding Number 2002-010 (Continued)

**Material Weakness/Noncompliance Citation - Ohio Rev. Code Sections 733.11, 733.43, and 733.14
(Continued)**

- The City Auditor's Statement of Cash Position for the year ended December 31, 2002 reflected a Permanent Investment Fund balance of \$2,433,835 as required by Ordinance 1900. This fund balance was invested with a brokerage firm (Merrill Lynch) and is referred to as the Permanent Investment Account. However, neither the City Treasurer nor the City Auditor utilized the investment account cost basis value to reconcile the investment account to the fund balance. The account cost basis value of the Permanent Investment Account invested with the brokerage firm (Merrill Lynch) was listed as \$2,292,513 on December 31, 2002, for a difference of \$141,322. The reduction within the investment account cost basis value resulted from the City receiving distributions of both principal and interest from the Permanent Investment account. The City Auditor posted these distributions as interest revenue in the General Fund. This resulted in the principal amount invested within the account to be reflected within the Permanent Investment Fund and the General Fund on the City Auditor's records. As a result the City did not have sufficient cash assets to support the fund balances. The effect on the City Auditor's Statement of Cash Position would be a decrease in the General Fund balance by \$141,322.

- The situation describe above for the Permanent Investment Account also exists with the City's Cemetery Perpetual Care Trust Fund. The investment account as of December 31, 2002 has a cost basis of \$150,953, while the fund cash balance is \$175,000 resulting in a difference of \$24,047. The difference was distributed to the City and posted to the City's Cemetery Fund. As a result the City did not have sufficient cash assets to support the fund balances. The effect on the City Auditor's Statement of Cash Position would be a decrease in the Cemetery Fund balance by \$24,047.

The above errors have been corrected in the City's books and are reflected in the December 31, 2002 financial statements.

In addition, the outstanding check list includes \$5,004.19 in checks outstanding greater than six months that, although they may not be errors, should be investigated and removed from the list if the check is not likely to be cashed.

We recommend the City Auditor ensure all checks are correctly recorded by eliminating manual checks and by providing a list of checks written and checks voided to the City Treasurer on a monthly basis. In the event a check clears that had not been posted, clears when listed as voided, or clears in an amount different than was posted, the City Treasurer should bring it to the City Auditor's attention so the check can be correctly recorded. This will aid in ensuring the outstanding check list is accurate and in ensuring all checks are posted in the correct amounts. We further recommend the City Treasurer provide copies of bank statements to the City Auditor so that bank charges and interest revenue can be recorded to the City Auditor's ledgers. We recommend the City Auditor not change beginning fund balances or post any receipt or disbursement transactions without proper supporting documentation. We recommend receipt pay-ins be made at the City Auditor's office as well as receipts being written by the City Treasurer so the City Auditor can post receipts timely instead of once per month as is currently being done.

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133
DECEMBER 31, 2002
(Continued)**

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

Finding Number 2002-010 (Continued)

Material Weakness/Noncompliance Citation - Ohio Rev. Code Sections 733.11, 733.43, and 733.14 (Continued)

The City Auditor and City Treasurer can then compare the City Auditor's pay-ins to the City Treasurer's receipts to ensure all receipts are timely and accurately posted. This will also aid in timely closing of the books each month. Furthermore, we recommend the City Auditor and City Treasurer reconcile with each other and with the bank monthly. Any variances between the City Auditor's balance and the City Treasurer's balance should be adequately explained (i.e. outstanding checks, deposit in transit, etc.) and any variances between the City Treasurer's balance and the Bank balance should be investigated and explained (i.e. bank interest not yet posted to books, etc). If necessary, corrections should be made to the City Auditor's and/or City Treasurer's balances if errors are found in the reconciliation process, rather than carrying an unexplained "In Transit Adjustment" amount. We recommend the reconciliations be provided to City Council monthly, along with copies of the City Auditor's fund balances, City Treasurer's fund balances and supporting documentation of all reconciling items. Lastly, we recommend the City not post distributions of investment principal as interest revenue. If such distributions occur, the City Treasurer should reduce the balance reflected as being invested with the brokerage firm and reflect the cash in the appropriate bank account and/or new investment.

Finding Number 2002-011

Material Weakness/Noncompliance Citation

Ohio Rev. Code Section 5705.10 states:

- All revenue derived from the following is required to be paid into the general fund:
 - the general levy for current expense within the ten-mill limitation,
 - any general levy for current expense authorized by vote in excess of the ten-mill limitation, and from
 - sources other than the general property tax, unless its use for a particular purpose is prescribed by law

- All revenue derived from general or special levies for debt charges, whether within or in excess of the ten mill limitation, which is levied for the debt charges on serial bonds, notes, or certificates of indebtedness having a life less than five years, shall be paid into the bond retirement fund. All such revenue which is levied for the debt charges on all other bonds, notes, or certificates of indebtedness is to be paid into the sinking fund.

- All revenue derived from a special levy is to be credited to a special fund for the purpose for which the levy was made.

- All revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose is to be paid into a special fund for such purpose.

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133
DECEMBER 31, 2002
(Continued)**

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

Finding Number 2002-011 (Continued)

Material Weakness/Noncompliance Citation - Ohio Rev. Code Section 5705.10 (Continued)

- All proceeds from the sale of public obligations or fractionalized interests in public obligations as defined in Ohio Rev. Code Section 133.01, except premium and accrued interest, is to be paid into a special fund for the purpose of such issue. Any interest earned on money in the special fund may be used for the purposes for which the indebtedness was authorized or may be credited and used for an authorized fund or account. The premium and accrued interest received from such sale is to be paid into the subdivision's sinking fund or the bond retirement fund.
- If a permanent improvement of the subdivision is sold, the amount received from it may be paid into the sinking fund, the bond retirement fund, or into a special fund for the construction or acquisition of permanent improvements.
- Proceeds from the sale of a public utility are to be paid into the sinking fund or bond retirement fund to the extent necessary to provide for the retirement of the outstanding indebtedness incurred in the construction or acquisition of such utility.
- Proceeds from the sale of property other than a permanent improvement are to be paid into the fund from which such property was acquired or is maintained, or if there is no such fund, into the general fund.

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

The City had negative fund balances at December 31, 2002 as follows:

<u>Fund</u>	<u>Balance</u>
203 Cemetery	(\$28,905)
219 Railroad Depot	(737)
220 DARE	(263)
405 Building	(697)
218 McNelly	(62,317)
401 Water Renovation	(250)
602 North Water	(29,868)
610 North Sewer Capital	(93,181)
614 Pool	(9,977)

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

CITY OF WELLSTON
JACKSON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133
DECEMBER 31, 2002
(Continued)

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

Finding Number 2002-012

Noncompliance Citation

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

Estimated receipts exceeded actual receipts in several funds at December 31, 2002 causing actual resources to fall below the level of appropriation as follows:

<u>Fund</u>	<u>Actual Resources</u>	<u>Appropriations</u>	<u>Variance</u>
213 CDBG Revolving Loan	\$76,272	\$82,000	(\$5,728)
218 McNelly	66,714	115,250	(48,536)
219 Railroad Depot	8,455	11,830	(3,375)
220 DARE	4,566	5,600	(1,034)
222 CHIP	355,237	361,000	(5,763)
405 Building	761	7,000	(6,239)
610 North Sewer Capital	803,429	936,896	(133,467)
611 Garbage	271,732	301,820	(30,088)
614 Pool	18,701	24,350	(5,649)

This could allow deficit spending to occur, as indicated in finding number 2002-012.

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

Finding Number 2002-013

Noncompliance Citation

Ohio Rev. Code Section 5705.40 states that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation. However, no appropriation may be reduced below an amount sufficient to cover all unliquidated and outstanding contracts and obligations. Transfers may be made by resolution or ordinance from one appropriation item to another.

The Council minutes reflected some appropriation amendments, but did not follow the same procedures as used in making the original appropriation. The amendments were not always listed at the legal level of control and were not approved by ordinance as the original appropriations were approved. This resulted in improper monitoring of the budget vs. actual amounts recorded in the system. The budgetary presentation includes only those amounts as adopted by the Council in the original permanent appropriations.

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133
DECEMBER 31, 2002
(Continued)**

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

Finding Number 2002-013 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 5705.40 (Continued)

We recommend the Council approve amendments complying with the same provisions of the law as used in making the original appropriations. We further recommend the ordinance include sufficient detail for the amendment including the fund/function/objective codes being amended, whether it is an increase/decrease of appropriations or an appropriation transfer between functions or object codes within the same funds.

Finding Number 2002-014

Material Weakness/Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) states no subdivision or taxing unit is to expend money unless it has been appropriated.

Expenditures plus encumbrances exceeded appropriations at December 31, 2002 in the following funds:

<u>Fund</u>	<u>Appropriations</u>	<u>Disbursements plus Encumbrances</u>	<u>Variance</u>
101 General	\$1,255,362	\$1,284,433	(\$29,071)
201 Fire	255,200	263,731	(8,531)
202 Street	253,275	374,062	(120,787)
203 Cemetery	102,475	120,949	(18,474)
204 Recreation	48,800	49,140	(340)
209 UDAG revolving loan	51,000	135,440	(84,440)
218 McNelly	115,250	1,017,812	(902,562)
220 DARE	5,600	6,117	(517)
221 Police Auxiliary	1,450	1,565	(115)
601 Water	1,043,580	1,812,228	(768,648)
602 North Water	168,513	564,891	(396,378)
606 Sewer	659,348	878,074	(218,726)
607 North Sewer	13,000	169,417	(156,417)
610 North Sewer Capital	936,896	1,000,282	(63,386)
614 Pool	24,350	32,605	(8,255)
702 State Fire	6,000	12,860	(6,860)

This could result in deficit spending, as indicated in finding number 2002-011.

We recommend the City monitor appropriations vs. actual expenditures plus encumbrances and amend appropriations as needed when resources are available.

CITY OF WELLSTON
JACKSON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133
DECEMBER 31, 2002
(Continued)

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

Finding Number 2002-015

Noncompliance Citation/Material Weakness

Ohio Rev. Code Section 5705.41(D) states no orders or contracts involving the expenditure of money are 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 and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by statute:

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

Amounts of less than \$1000 (increased to \$3,000 on April 7, 2003) may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Fiscal officers may prepare so-called "blanket" certificates not exceeding \$5,000 against any specific line item account over a period not exceeding 3 months or running beyond the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation. Effective September 26, 2003, the \$5,000 limit on the issuance of purchase orders and the requirement that purchase orders not extend beyond three months have been removed from the law. Effective September 26, 2003, purchase orders may not exceed an amount established by resolution or ordinance of the legislative authority, and cannot extend past the end of the fiscal year. In other words, blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.

In addition to regular blanket certificates, a subdivision's fiscal officer may also issue so-called "super blanket" certificates for any amount for expenditures and contracts from a specific line-item appropriation account in a specified fund for most professional services, fuel, oil, food items and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the fiscal year. More than one super blanket certificate may be outstanding at one particular time for a particular line-item appropriation account.

Funds were not certified prior to purchase commitment being made and no "then and now" certificate was obtained for fifty-three percent of the transactions tested. In addition, several payments in 2002 were charged to blanket certificates dated January 1, 2001.

We recommend the City establish procedures to assure that the required certification of funds from the City Auditor is obtained prior to purchases being made. In the event this does not occur, we recommend the City Auditor pursue a "then and now" certificate as stated above. In addition, we recommend that all "blanket" and "super blanket" certificates be canceled at year end and that new certificates be issued.

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133
DECEMBER 31, 2002
(Continued)**

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

Finding Number 2002-016

Material Weakness

The City has delegated the investment of the Permanent Investment Account and the Cemetery Trust Account, which is a significant accounting function, to Merrill Lynch, a third-party administrator. The City has not established procedures to determine whether the service organization has sufficient controls in place and operating effectively to reduce the risk that investments have not been completely and accurately processed in accordance with the Ohio Revised Code and the City's Permanent Investment Ordinance.

We recommend the City implement procedures to assure the completeness and accuracy (including allowability) of investment transactions processed by its third-party administrator. Statement on Auditing Standards (SAS) No. 70 as amended, prescribes standards for reporting on the processing (i.e. control design and operation) of transactions by service organizations. An unqualified Tier II "Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness" in accordance with SAS No. 70, should provide the City with an appropriate level of assurance that investments are being processed in conformance with the Ohio Revised Code and the City's Permanent Investment Ordinance. (Also, SAS 92 clarifies the applicability of SAS 70 to investing activities.)

In addition, we recommend the City specify in their contract with Merrill Lynch that an annual Tier II SAS 70 report be performed. The City should be provided a copy of the SAS 70 report timely and should review the report's content. A SAS 70 report should be conducted in accordance with American Institute of Certified Public Accountants' (AICPA) standards by a firm registered and considered in "good standing" with the Accountancy Board of the respective State. If the third-party administrator refuses to provide the City with a Tier II SAS 70 report, we recommend the City only contract with a third-party administrator that will provide such a report.

Finding Number 2002-017

Material Weakness

Access to financial records and financial transactions must be provided in a manner to establish duty segregation between staff, and limit staff members to only those functions needed to perform their specific job duties. The City used Software Solutions, Inc., financials to record and process its financial transactions. Application level security had been established to provide duty segregation, and ensure that users have appropriate access.

Inconsistencies were discovered during the review of the application's security profiles. They included inappropriate access rights within access classes, improper assignment of users to an access class and/or application, and existence of a user account belonging to a terminated employee. The items discovered are considered to be significant due to the small size of the City.

If access is not appropriately provided, users may have more access to system functions than necessary for the performance of their job responsibilities, thus reducing the reliability that can be put on the system controls and circumventing the established segregation of duties in relation to proper checks and balances between the City's departments.

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133
DECEMBER 31, 2002
(Continued)**

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

Finding Number 2002-017 (Continued)

Material Weakness (Continued)

The City should review the access rights provided to City employees to determine if any additional inconsistencies exist. If necessary, the vendor should be contacted to ensure that access is properly established. Access classes and access assignments should be altered as necessary to ensure that authorized users are provided access required which will allow them to perform their job duties, and that established duty segregations are maintained. In addition, application functions that are solely the responsibility of the City Auditor should be restricted from all other departments and vice versa.

Finding Number 2002-018

Reportable Condition

An Independent Public Accountant (IPA) was hired to prepare the General Purpose Financial Statements for the City of Wellston. In addition, the City utilized the IPA to update the City's fixed assets records. However, the City did not maintain a fixed asset listing, document additions, deletions or other adjustments, but rather relied on the IPA to prepare this information. The Fixed Asset Summary prepared by the IPA for the City of Wellston for the year ended December 31, 2002 reflected most additions reflected in the 2002 vouchers but only showed one deletion. The City did not notify the IPA that they had an auction during 2002 and several items were sold, therefore, these items were still listed on the summary. The City did not review the summary prepared by the IPA until questions arose in the audit. The City then provided the IPA with the necessary changes and such changes were made to the financial statements.

However, we also noted an amount of \$827,929 (19% of total General Fixed Asset Account Group (GFAAG) fixed asset value) designated as a prior period audit adjustment in Buildings and Improvements in the GFAAG and an amount of \$284,116 (2.4% of total Enterprise fixed asset value) designated as a prior period audit adjustment in Water and Sewer Lines in the Water fund. These amounts have no other explanation or support and do not list the assets making up these prior period adjustment amounts. There was also \$398,005 (3.4% of Enterprise fixed asset value) designated as Construction in Progress in the Water and Sewer Funds for which no current construction project exists, indicating this amount should be moved to another more appropriate category. However, there was no support indicating which category the Construction in Progress should be moved to.

The City must identify the assets related to the prior audit adjustment and construction in progress amounts noted above. To adopt GASB-34 for calendar year ended December 31, 2004, the City will have to be able to identify the assets to assign the depreciation to the appropriate function. We recommend the City hire an appraisal firm to appraise and tag all fixed assets owned by the City. The fixed asset listing is the responsibility of the City and management of the City should review the listing for accuracy.

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133
DECEMBER 31, 2002
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number	2002-019
CFDA Title and Number	Community Development Block Grants/14.228
Federal Award Number/Year	A-W-00-199-1 and A-P-01-199-1
Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

Cash Management Noncompliance

The Office of Housing and Community Partnership Financial Management Rules and Regulations Handbook, Section A(3)(f), states that the grantee must develop a cash management system to ensure compliance with the Fifteen-Day rule relating to the prompt disbursement of funds. This rule states that funds drawn down should be limited to an amount that will enable the grantee to disburse funds on hand to a balance of less than \$5,000 within fifteen days of receipt of any funds. Lump sum draw downs are not permitted.

The funds that were drawn down were not disbursed to a balance of less than \$5,000 within 15 days of receipt. A comparison of the draws to the expenditures of each of the funds revealed the following:

Draw number 21, dated January 7, 2002, was requested from Grants A-W-00-199-1 and A-P-01-199-1 in the amount of \$502,500. The City received the funding on March 7, 2002, however subsequent disbursements were made throughout the year with the last payment being made July 17, 2002. Therefore, the draw was not expended within 15 days of receipt, as required, and the balance exceeded \$5,000.

We recommend the City establish a separate fund for each grant with cash management requirements. The City should monitor the cash balances in these funds to determine when and how much cash to request to ensure compliance with the Fifteen-Day rule.

Finding Number	2002-020
CFDA Title and Number	Community Development Block Grants/14.228
Federal Award Number/Year	A-W-00-199-1 and A-P-01-199-1
Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

Special Tests and Provisions - Environmental Review Noncompliance

24 C.F.R. Part 58 requires projects to have an environmental review unless they meet criteria specified in the regulations that would exempt or exclude them from Request for Release of Funds (RROF) and environmental certification requirements.

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133
DECEMBER 31, 2002
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number 2002-020 (Continued)

Environmental Review Noncompliance – 24 C.F.R. Part 58 (Continued)

According to a Monitoring Report by the Ohio Department of Development (ODOD), dated July 8, 2002, the environmental review record maintained by the City of Wellston was incomplete and inadequate. The report further stated, checklists were partially completed and source documentation supporting the decisions on impact was non-existent. Additionally, the project then proceeded prior to the Release of Funds being issued by the Office of Housing and Community Partnerships (OHCP) which is a violation of CDBG regulations. As a result, the City was provided two options to resolve the issues in a ODOD letter dated July 24, 2002. The options were: 1) return the grant funds (\$390,000 in CDBG Water and Sewer funds and \$200,000 in ARC funds) or 2) certify that the City did not have the funds to repay the state and willingly agree to surrender its FY2003 CDBG Formula Allocation grant and the right to apply for all competitive CDBG grants for a period of one year. The City agreed, in a letter to ODOD dated August 20, 2002, to the second option.

We recommend the City complete the environmental review according to CDBG regulations and to obtain the Release of Funds from OHCP prior to proceeding with the project.

Finding Number	2002-021
CFDA Title and Number	Community Development Block Grants/14.228
Federal Award Number/Year	A-W-00-199-1 and A-P-01-199-1
Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

Davis Bacon Act Noncompliance

40 USC 276a-276a-7 requires 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.

In addition, 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 certified payroll reports from Southern Ohio Trenching, however, we found no evidence to indicate that these reports were being monitored by management. The City paid \$539,862 in contractual fees to Southern Ohio Trenching in 2002.

We recommend 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
JACKSON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133
DECEMBER 31, 2002
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number	2002-022
CFDA Title and Number	Community Development Block Grants/14.228
Federal Award Number/Year	A-C-99-199-1
Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

Allowable Costs Noncompliance/Material Weakness/Questioned Cost

OMB Circular A-87, Section C.1.J requires that costs charged to Federal programs must be adequately documented.

The City reported a total of \$130,159 in total federal expenditures, related to Grant A-C-99-199-1-Community Housing Improvement Program (CHIP). However, for \$130,051 of said expenditures, the City was unable to provide invoices or other data evidencing the necessity of such expenditure.

Therefore, \$130,051 will be considered questioned costs.

Finding Number	2002-023
CFDA Title and Number	Community Development Block Grants/14.228
Federal Award Number/Year	A-W-00-199-1, A-P-01-199-1 and A-C-99-199-1
Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

Cash Management/Reportable Condition

The grant agreements for the above mentioned federal award number/year, states specific requirements for the Accounting of Funds. In part, each grant agreement section "Statement of Agreement, Part 6 – Accounting of Funds" states the grant funds shall be deposited and maintained in a separate account upon the books and records of the City (the "Account"). The City shall keep all records of the Account in a manner which is consistent with generally accepted accounting principles. All disbursements from the Account shall be for obligations incurred in the performance of the grant agreement and shall be supported by contracts, invoices, vouchers, and other data, as appropriate, evidencing the necessity of such expenditures.

**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133
DECEMBER 31, 2002
(Continued)**

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
(Continued)**

Finding Number 2002-023 (Continued)

Cash Management/Reportable Condition (Continued)

Some federal grant records were not available at the City; such as status reports, ODOB communications, and draw down reports; however, copies of this information was provided by the Economic Development Board. The City did not provide an appropriate breakdown in the accounting records of the project expenditures made and charged to each of the federal programs and files were found to be unorganized and incomplete. Although the CHIP grant coordinator/consultant maintained manual ledgers detailing the expenditures charged to that program and made the disbursements from a separate checking account, supporting documentation was not available to support all reported expenditures, as indicated in finding number 2002-023. Additionally, total federal expenditures related to Grant A-W-00-199-1-Water and Sanitary Sewer Program were \$317,212 of which \$165,350 was not posted to the City's accounting records and total federal expenditures related to Grant A-C-99-199-1-Community Housing Improvement Program (CHIP) were \$130,159 of which \$130,051 was not posted to the City's accounting records. The City's general purpose financial statements have been adjusted to reflect this activity.

We recommend the City establish procedures to ensure the grant coordinator/consultant have reviewed and addressed the requirements within the grant agreements. Also, within these procedures, we recommend the City include reviews of supporting documentation maintained by the City Auditor, Mayor and grant consultant to assure they are maintaining appropriate and complete records as per the grant agreement. The City Auditor should record all receipts/expenditures of grant money within a special revenue fund established specifically for that grant.

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**CITY OF WELLSTON
JACKSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 §.315 (b)
DECEMBER 31, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-01	Noncompliance citation of Ohio Rev. Code Section 5705.10 for negative fund balances.	No	Not Corrected – See Finding Number 2002-011 in the Schedule of Findings and Questioned Costs
2001-02	Noncompliance citation of Ohio Rev. Code Section 5705.41(B) for expenditures exceeding appropriations.	No	Not Corrected – See Finding Number 2002-014 in the Schedule of Findings and Questioned Costs
2001-03	Noncompliance citation of Ohio Rev. Code Section 5705.41(D) for not canceling blanket purchase orders and for blanket purchase orders exceeding \$5000.	No	Not Corrected – See Finding Number 2002-015 in the Schedule of Findings and Questioned Costs
2001-04	Material weakness for not reconciling bank accounts.	No	Not Corrected – See Finding Number 2002-010 in the Schedule of Findings and Questioned Costs
2001-05	Material weakness for not maintaining adequate financial records.	No	Not Corrected – See Finding Number 2002-010 in the Schedule of Findings and Questioned Costs
2001-06	Material weakness for General Fund expenditures exceeding revenues.	Yes	Corrected
2001-07	Reportable condition for not monitoring wages paid to laborers and mechanics employed by contractors and subcontractors to be sure that prevailing wages are being paid in accordance with the Davis-Bacon Act.	No	Not Corrected – See Finding Number 2002-021 in the Schedule of Findings and Questioned Costs
2001-08	Reportable condition for not providing an appropriate breakdown of project expenditures charged to each federal program.	No	Not Corrected – See Finding Number 2002-023 in the Schedule of Findings and Questioned Costs

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**CITY OF WELLSTON
JACKSON COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 §.315 (c)
DECEMBER 31, 2002**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2002-001	The City Law Director plans to research and investigate all findings.	The Law Director has 120 days from the date of report to take official action. After which, the Ohio Attorney General may take action.	Joseph Kirby, Contract Legal Counsel for the City of Wellston
2002-002	The finding has been repaid.		Joseph Kirby, Contract Legal Counsel for the City of Wellston
2002-003	The finding has been repaid.		Joseph Kirby, Contract Legal Counsel for the City of Wellston
2002-004	The City Auditor plans to review each of the debt agreements to ensure compliance with the debt covenants.	The newly elected City Auditor intends to have full compliance with debt covenants for Calendar Year (CY) 2004.	William Marietta, City Auditor
2002-005	The City Treasurer has already completed an investment policy for the Merrill Lynch investments. The policy limits maturities and restricts types of investments as well as restricts distributions unless the account value is in excess of the original principal.	The investment policy, approved in 2003, limits maturities. However, the current portfolio may contain investments with maturities greater than 5 years, until they reach the 10 year maturity deadline.	Ceil Geitz, City Treasurer
2002-006	The City Treasurer has already completed an investment policy for the Merrill Lynch investments. The policy limits maturities and restricts types of investments as well as restricts distributions unless the account value is in excess of the original principal.	The investment policy was approved in 2003 and filed with Merrill Lynch.	Ceil Geitz, City Treasurer
2002-007	The City Treasurer has already completed an investment policy for the Merrill Lynch investments. The policy limits maturities and restricts types of investments as well as restricts distributions unless the account value is in excess of the original principal.	The investment policy, approved in 2003, restricts investments to those from allowable institutions.	Ceil Geitz, City Treasurer

**CITY OF WELLSTON
JACKSON COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 §.315 (c)
DECEMBER 31, 2002
(Continued)**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2002-008	The City Mayor and Service Director intend to follow all bidding procedures to ensure compliance with contract law.	The newly elected Mayor and Service Director plan to comply for CY 2004.	Edgar Hayburn, City Mayor and Mark Jacobs, City Service Director
2002-009	The City Auditor intends to maintain tighter control over disbursement records and maintain copies of all debt agreements. The City Mayor intends to maintain receipt books and supporting documentation as well as all contract information. The Mayor and City Auditor intend to maintain copies of all federal grant records, even those filed with the grant administrators.	The newly elected City Auditor and Mayor intend to maintain all records for CY 2004.	William Marietta, City Auditor and Edgar Hayburn, City Mayor
2002-010	The City Auditor and Treasurer intend to work together to ensure all transactions and timely and accurately posted and to ensure they reconcile with the bank on a monthly basis.	The newly elected City Auditor has completed bank reconciliations for 2003 to ensure all transactions are posted. All other portions of the finding are anticipated to be corrected during CY 2004.	William Marietta, City Auditor and Ceil Gietz, City Treasurer
2002-011	The City Auditor intends to monitor fund balances and if necessary, advance monies from the General Fund to avoid negative fund balances.	The newly elected City Auditor plans to comply with this code section for CY 2004.	William Marietta, City Auditor
2002-012	The City Auditor intends to monitor estimated vs. actual receipts monthly and obtain amended certificates when necessary.	The newly elected City Auditor plans to comply with this code section for CY 2004.	William Marietta, City Auditor
2002-013	The City Auditor does not intend to amend appropriations without Council approval.	The newly elected City Auditor plans to comply with this code section for CY 2004.	City Council and William Marietta, City Auditor
2002-014	The City Auditor intends to monitor appropriations vs. actual disbursements plus encumbrances monthly to determine if amendments are necessary.	The newly elected City Auditor plans to comply with this code section for CY 2004.	William Marietta, City Auditor
2002-015	The City Auditor intends to close blanket purchase orders after 3 months and at year end as well as close super blanket purchase orders at year end.	The newly elected City Auditor plans to comply with this code section for CY 2004.	William Marietta, City Auditor

**CITY OF WELLSTON
JACKSON COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 §.315 (c)
DECEMBER 31, 2002
(Continued)**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2002-015	The City Auditor intends to certify all purchases. With Council's support, purchases without a valid purchase order will not be paid by the City, but rather become the responsibility of the person ordering the items.	The newly elected City Auditor plans to comply with this code section for CY 2004.	City Council and William Marietta, City Auditor
2002-016	The City intends to request Merrill Lynch to obtain a SAS-92 report.	The City Treasurer anticipates compliance for CY 2004.	Ceil Geitz, City Treasurer
2002-017	The City has purchased updates to their current software and is working to restrict user access to only necessary applications.	The newly elected City Auditor anticipates software upgrades and user restrictions to be put in place during CY 2004.	William Marietta, City Auditor
2002-018	The City intends to hire an appraisal company to prepare a fixed asset listing and tag fixed assets.	The newly elected City Auditor anticipates the fixed asset appraisal to be completed during CY2004.	William Marietta, City Auditor
2002-019	The City will not draw down funds in excess of the amount that can be expended within 15 days.	The City will implement this when they next receive a CDBG grant.	City Council and William Marietta, City Auditor
2002-020	The City does not intend to proceed with the project until the environmental review is completed and approved.	The City will implement this when they next receive a CDBG grant requiring an environmental review.	City Council
2002-021	The City will monitor payroll of contractors to ensure compliance with the Davis Bacon Act as well as maintain support evidencing the compliance.	The City will implement this when they next receive a CDBG grant.	City Council
2002-022	The City Auditor intends to maintain tighter control over disbursement records, including federal disbursements. Disbursements will not be made without supporting invoices or contracts.	The newly elected City Auditor and Mayor intend to maintain all records for CY 2004.	William Marietta, City Auditor and Edgar Hayburn, City Mayor
2002-023	The Mayor and City Auditor intend to maintain copies of all federal grant records, even those filed with the grant administrators.	The newly elected City Auditor and Mayor intend to maintain all records for CY 2004.	William Marietta, City Auditor and Edgar Hayburn, City Mayor

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CITY OF WELLSTON

JACKSON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 17, 2004**