



**CITY OF NELSONVILLE  
ATHENS COUNTY**

**REGULAR AUDIT**

**FOR THE YEARS ENDED DECEMBER 31, 1998-1997**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



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## REPORT OF INDEPENDENT ACCOUNTANTS

City of Nelsonville  
Athens County  
29 Fayette Street  
Nelsonville, Ohio 45764

To the City Council:

We have audited the accompanying financial statements of the City of Nelsonville, Athens County, Ohio, (the City) as of and for the years ended December 31, 1998, and December 31, 1997. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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.

Ohio Administrative Code § 117-6-01 requires the City to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 1, the City prepares its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash and combined fund cash balances and reserves for encumbrances of the City as of December 31, 1998 and December 31, 1997, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 1999 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.

This report is intended solely for the information and use of management, and City Council and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

**Jim Petro**  
Auditor of State

October 14, 1999

**City of Nelsonville**



**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 1998**

|   | Governmental Fund Types |                    |                     | Fiduciary<br>Fund Type | Totals<br>(Memorandum<br>Only) |
|---|-------------------------|--------------------|---------------------|------------------------|--------------------------------|
|   | General                 | Special<br>Revenue | Capital<br>Projects | Expendable<br>Trust    |                                |
| <b>Cash Receipts:</b>   |                         |                    |                     |                        |                                |
| Property Tax and Other Local Taxes  | \$619,809               | \$253,185          | \$210,000           | \$0                    | \$1,082,994                    |
| Intergovernmental Receipts  | 251,157                 | 223,601            | 296,374             | 0                      | 771,132                        |
| Charges for Services  | 1,200                   | 0                  | 0                   | 0                      | 1,200                          |
| Fines, Licenses, and Permits  | 66,406                  | 2,498              | 0                   | 0                      | 68,904                         |
| Earnings on Investments   | 75,187                  | 0                  | 0                   | 0                      | 75,187                         |
| Miscellaneous   | 70,505                  | 12,792             | 10,952              | 24,598                 | 118,847                        |
| <b>Total Cash Receipts</b>  | <b>1,084,264</b>        | <b>492,076</b>     | <b>517,326</b>      | <b>24,598</b>          | <b>2,118,264</b>               |
| <b>Cash Disbursements:</b>  |                         |                    |                     |                        |                                |
| Current:  |                         |                    |                     |                        |                                |
| Security of Persons and Property  | 774,607                 | 58,814             | 0                   | 0                      | 833,421                        |
| Public Health Services  | 4,730                   | 0                  | 0                   | 0                      | 4,730                          |
| Leisure Time Activities   | 0                       | 24,919             | 0                   | 5,000                  | 29,919                         |
| Basic Utility Services  | 14,457                  | 0                  | 0                   | 0                      | 14,457                         |
| Transportation  | 0                       | 302,218            | 0                   | 0                      | 302,218                        |
| General Government  | 245,145                 | 0                  | 0                   | 0                      | 245,145                        |
| Capital Outlay  | 22,573                  | 105,368            | 872,897             | 21,013                 | 1,021,851                      |
| <b>Total Disbursements</b>  | <b>1,061,512</b>        | <b>491,319</b>     | <b>872,897</b>      | <b>26,013</b>          | <b>2,451,741</b>               |
| <b>Total Receipts Over/(Under) Disbursements</b>  | <b>22,752</b>           | <b>757</b>         | <b>(355,571)</b>    | <b>(1,415)</b>         | <b>(333,477)</b>               |
| <b>Other Financing Receipts/(Disbursements):</b>  |                         |                    |                     |                        |                                |
| Sale of Bonds or Notes  | 0                       | 0                  | 228,521             | 0                      | 228,521                        |
| Transfers-In  | 0                       | 35,500             | 0                   | 0                      | 35,500                         |
| Transfers-Out   | (10,000)                | (10,500)           | 0                   | 0                      | (20,500)                       |
| <b>Total Other Financing Receipts/(Disbursements)</b>   | <b>(10,000)</b>         | <b>25,000</b>      | <b>228,521</b>      | <b>0</b>               | <b>243,521</b>                 |
| <b>Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements</b> | <b>12,752</b>           | <b>25,757</b>      | <b>(127,050)</b>    | <b>(1,415)</b>         | <b>(89,956)</b>                |
| <b>Fund Cash Balances January 1</b>   | <b>512,852</b>          | <b>213,499</b>     | <b>459,298</b>      | <b>7,174</b>           | <b>1,192,823</b>               |
| <b>Fund Cash Balances, December 31</b>  | <b>\$525,604</b>        | <b>\$239,256</b>   | <b>\$332,248</b>    | <b>\$5,759</b>         | <b>\$1,102,867</b>             |
| <b>Reserves for Encumbrances, December 31</b>   | <b>\$9,569</b>          | <b>\$14,343</b>    | <b>\$0</b>          | <b>\$1,876</b>         | <b>\$25,788</b>                |

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

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL PROPRIETARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 1998**

|  | Proprietary<br>Fund Types |                  | Totals<br>(Memorandum<br>Only) |
|--|---------------------------|------------------|--------------------------------|
|  | Enterprise                | Agency           |                                |
| <b>Operating Cash Receipts:</b>  |                           |                  |                                |
| Charges for Services   | \$1,525,289               | \$0              | \$1,525,289                    |
| Miscellaneous  | 27,734                    | 0                | 27,734                         |
|  | 1,553,023                 | 0                | 1,553,023                      |
| <b>Operating Cash Disbursements:</b>   |                           |                  |                                |
| Personal Services  | 474,496                   | 0                | 474,496                        |
| Fringe Benefits  | 64,793                    | 0                | 64,793                         |
| Contractual Services   | 187,011                   | 0                | 187,011                        |
| Supplies and Materials   | 260,932                   | 0                | 260,932                        |
| Capital Outlay   | 50,791                    | 0                | 50,791                         |
|  | 1,038,023                 | 0                | 1,038,023                      |
| Operating Income/(Loss)  | 515,000                   | 0                | 515,000                        |
| <b>Non-Operating Cash Receipts:</b>  |                           |                  |                                |
| Property Tax and Other Local Taxes   | 0                         | 1,006,012        | 1,006,012                      |
| Other Non-Operating Receipts   | 0                         | 55,848           | 55,848                         |
|  | 0                         | 1,061,860        | 1,061,860                      |
| <b>Non-Operating Cash Disbursements:</b>   |                           |                  |                                |
| Debt Service   | 252,332                   | 0                | 252,332                        |
| Other Non-Operating Cash Disbursements   | 11,050                    | 760,533          | 771,583                        |
|  | 263,382                   | 760,533          | 1,023,915                      |
| Excess of Receipts Over/(Under) Disbursements<br>Before Interfund Transfers and Advances | 251,618                   | 301,327          | 552,945                        |
| Transfers-Out  | (15,000)                  | 0                | (15,000)                       |
| Net Receipts Over/(Under) Disbursements  | 236,618                   | 301,327          | 537,945                        |
| Fund Cash Balances, January 1  | 681,000                   | 14,039           | 695,039                        |
| <b>Fund Cash Balances, December 31</b>   | <b>\$917,618</b>          | <b>\$315,366</b> | <b>\$1,232,984</b>             |
| Reserve for Encumbrances, December 31  | \$105,679                 | \$0              | \$105,679                      |

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



**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 1997**

|  | <u>Governmental Fund Types</u> |                            |                             | <u>Fiduciary<br/>Fund Type</u> | <u>Totals<br/>(Memorandum<br/>Only)</u> |
|--|--------------------------------|----------------------------|-----------------------------|--------------------------------|---|
|  | <u>General</u>                 | <u>Special<br/>Revenue</u> | <u>Capital<br/>Projects</u> | <u>Expendable<br/>Trust</u>    |   |
| <b>Cash Receipts:</b>  |                                |                            |                             |                                |   |
| Property Tax and Other Local Taxes   | \$876,012                      | \$212,359                  | \$188,726                   | \$0                            | \$1,277,097                             |
| Intergovernmental Receipts   | 324,218                        | 253,349                    | 47,783                      | 0                              | 625,350                                 |
| Charges for Services   | 1,600                          | 5,435                      | 0                           | 0                              | 7,035                                   |
| Fines, Licenses, and Permits   | 36,690                         | 1,757                      | 0                           | 0                              | 38,447                                  |
| Earnings on Investments  | 78,961                         | 0                          | 0                           | 0                              | 78,961                                  |
| Miscellaneous  | 290                            | 14,100                     | 40,000                      | 19,635                         | 74,025                                  |
|  | <u>1,317,771</u>               | <u>487,000</u>             | <u>276,509</u>              | <u>19,635</u>                  | <u>2,100,915</u>                        |
| <b>Cash Disbursements:</b>   |                                |                            |                             |                                |   |
| Current:   |                                |                            |                             |                                |   |
| Security of Persons and Property   | 733,617                        | 36,041                     | 0                           | 0                              | 769,658                                 |
| Public Health Services   | 4,447                          | 0                          | 0                           | 0                              | 4,447                                   |
| Leisure Time Activities  | 12,197                         | 31,808                     | 0                           | 0                              | 44,005                                  |
| Transportation   | 0                              | 259,430                    | 0                           | 0                              | 259,430                                 |
| General Government   | 269,027                        | 0                          | 0                           | 1,486                          | 270,513                                 |
| Capital Outlay   | 71,269                         | 155,924                    | 421,007                     | 17,407                         | 665,607                                 |
|  | <u>1,090,557</u>               | <u>483,203</u>             | <u>421,007</u>              | <u>18,893</u>                  | <u>2,013,660</u>                        |
| Total Receipts Over/(Under) Disbursements  | <u>227,214</u>                 | <u>3,797</u>               | <u>(144,498)</u>            | <u>742</u>                     | <u>87,255</u>                           |
| <b>Other Financing Receipts/(Disbursements):</b>   |                                |                            |                             |                                |   |
| Sale of Bonds and Notes  | 0                              | 0                          | 330,418                     | 0                              | 330,418                                 |
| Transfers-In   | 0                              | 29,216                     | 0                           | 0                              | 29,216                                  |
| Transfers-Out  | (15,716)                       | 0                          | 0                           | 0                              | (15,716)                                |
| Other Financing Uses   | (48,229)                       | 0                          | 0                           | 0                              | (48,229)                                |
|  | <u>(63,945)</u>                | <u>29,216</u>              | <u>330,418</u>              | <u>0</u>                       | <u>295,689</u>                          |
| Excess of Cash Receipts and Other Financing<br>Receipts Over/(Under) Cash Disbursements<br>and Other Financing Disbursements | 163,269                        | 33,013                     | 185,920                     | 742                            | 382,944                                 |
| Fund Cash Balances January 1   | <u>349,583</u>                 | <u>180,486</u>             | <u>273,378</u>              | <u>6,432</u>                   | <u>809,879</u>                          |
| <b>Fund Cash Balances, December 31</b>   | <b><u>\$512,852</u></b>        | <b><u>\$213,499</u></b>    | <b><u>\$459,298</u></b>     | <b><u>\$7,174</u></b>          | <b><u>\$1,192,823</u></b>               |
| Reserves for Encumbrances, December 31   | <u>\$26,390</u>                | <u>\$9,428</u>             | <u>\$114,590</u>            | <u>\$0</u>                     | <u>\$150,408</u>                        |

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

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL PROPRIETARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 1997**

|  | Proprietary<br>Fund Types |                 | Totals<br>(Memorandum<br>Only) |
|--|---------------------------|-----------------|--------------------------------|
|  | Enterprise                | Agency          |                                |
| <b>Operating Cash Receipts:</b>  |                           |                 |                                |
| Charges for Services   | \$1,467,547               | 0               | 1,467,547                      |
| Total Operating Cash Receipts  | 1,467,547                 | 0               | 1,467,547                      |
| <b>Operating Cash Disbursements:</b>   |                           |                 |                                |
| Personal Services  | 551,513                   | 0               | 551,513                        |
| Contractual Services   | 239,836                   | 0               | 239,836                        |
| Supplies and Materials   | 314,479                   | 0               | 314,479                        |
| Capital Outlay   | 55,551                    | 0               | 55,551                         |
| Total Operating Cash Disbursements   | 1,161,379                 | 0               | 1,161,379                      |
| Operating Income/(Loss)  | 306,168                   | 0               | 306,168                        |
| <b>Non-Operating Cash Receipts:</b>  |                           |                 |                                |
| Property Tax and Other Local Taxes   | 0                         | 948,494         | 948,494                        |
| Other Non-Operating Receipts   | 28,413                    | 59,830          | 88,243                         |
| Total Non-Operating Cash Receipts  | 28,413                    | 1,008,324       | 1,036,737                      |
| <b>Non-Operating Cash Disbursements:</b>   |                           |                 |                                |
| Debt Service   | 231,906                   | 0               | 231,906                        |
| Other Non-Operating Cash Disbursements   | 11,596                    | 1,004,444       | 1,016,040                      |
| Total Non-Operating Cash Disbursements   | 243,502                   | 1,004,444       | 1,247,946                      |
| Excess of Receipts Over/(Under) Disbursements<br>Before Interfund Transfers and Advances | 91,079                    | 3,880           | 94,959                         |
| Transfers-Out  | (13,500)                  | 0               | (13,500)                       |
| Net Receipts Over/(Under) Disbursements  | 77,579                    | 3,880           | 81,459                         |
| Fund Cash Balances, January 1  | 603,421                   | 10,159          | 613,580                        |
| <b>Fund Cash Balances, December 31</b>   | <b>\$681,000</b>          | <b>\$14,039</b> | <b>\$695,039</b>               |
| Reserve for Encumbrances, December 31  | \$110,926                 | \$0             | \$110,926                      |

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

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 1998 AND 1997**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The City of Nelsonville, Athens County, (the City) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Effective January 1, 1995, the City began operating under a Charter form of government. This form follows the Council-City Manager style. The City Council is elected, as well as the City Auditor and City Treasurer. The Council appoints a City Manager and a Clerk of Council. The following services are provided: General Government, Police Protection, Fire Protection, Water and Sewer Services, Street Lighting, Recreation, and Street Maintenance and Repair.

Management believes the financial statements included in this report represent all of the funds of the City over which the City has the ability to exercise direct operating control.

**B. Basis of Accounting**

Although required by Ohio Administrative Code Section 117-6-01 to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP), the City chooses to prepare its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as formerly prescribed or permitted by the Auditor of State.

**C. Pooled Cash and Investments**

The City Treasurer invests all available funds of the City in interest-bearing checking accounts with commercial banks, and with the State Treasurer's Asset Reserve (STAROhio). This cash is pooled for investment purposes to capture the highest rate of return. Income from these investments is distributed to the General Fund.

**D. Fund Accounting**

The City uses fund accounting to segregate cash and investments that are restricted as to use. The City classifies its funds into the following types:

**1. General Fund**

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 1998 AND 1997**  
**(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Fund Accounting (Continued)**

**2. Special Revenue Fund**

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The City had the following significant Special Revenue Funds:

Street Construction, Maintenance and Repair Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing City's streets.

Street Levy Fund - This fund receives levy money for maintaining and repairing City's streets.

FEMA - This fund receives money from the Federal Emergency Management Agency to provide flood relief to the City.

**3. Capital Project Funds**

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The City had the following significant capital project funds:

Capital Improvements Fund - This fund receives thirty percent of income tax collections to be used for capital improvements in the City.

Community Improvement Board Grant Fund - This fund receives a grant for community improvements in the City.

**4. Enterprise Funds**

These funds account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The City had the following significant Enterprise Funds:

Water Revenue Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Sewer Revenue Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

**5. Fiduciary Funds (Trust and Agency Funds)**

Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the City to maintain the corpus of the trust, the fund is classified as a nonexpendable trust fund. Other trust funds are classified as expendable. Funds for which the City is acting in an agency capacity are classified as agency funds. The City had the following significant fiduciary funds:

Baird Foundation Fund - This Fund receives donations for City Wide beautification and improvement projects.

**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 1998 AND 1997**  
**(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Fund Accounting (Continued)**

**5. Fiduciary Funds (Trust and Agency Funds)**

Municipal Income Tax Fund - This fund receives income tax monies and then the monies are distributed to the Swimming Pool Fund, Capital Improvements Fund and General Fund for expenses.

**E. Budgetary Process**

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

**2. Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

**3. Encumbrances**

The Ohio Revised Code requires the City to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 1998 and 1997 budgetary activity appears in Note 3.

**F. Property, Plant and Equipment**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

**G. Unpaid Vacation and Sick Leave**

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the City.

**H. 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.

**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 1998 AND 1997**  
**(Continued)**

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

The City maintains a cash and investments pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

|                                | <u>1998</u>         | <u>1997</u>         |
|--------------------------------|---------------------|---------------------|
| Demand deposits                | \$ 1,157,221        | \$ 770,850          |
| STAROhio                       | <u>1,178,630</u>    | <u>1,117,012</u>    |
| Total deposits and investments | <u>\$ 2,335,851</u> | <u>\$ 1,887,862</u> |

**Deposits:** Deposits are insured by the Federal Depository Insurance Corporation, collateralized by securities specifically pledged by the financial institution to the City, and collateralized by the financial institution's public entity deposit pool.

**Investments:** Investments in STAROhio are not evidenced by securities that exist in physical or book-entry form.

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 1998 and December 31, 1997 follows:

| 1998 Budgeted vs. Actual Receipts |                      |                     |                  |
|-----------------------------------|----------------------|---------------------|------------------|
| Fund Type                         | Budgeted<br>Receipts | Actual<br>Receipts  | Variance         |
| General                           | \$ 1,109,250         | \$ 1,084,264        | \$ (24,986)      |
| Special Revenue                   | 400,375              | 527,576             | 127,201          |
| Capital Projects                  | 941,000              | 745,847             | (195,153)        |
| Enterprise                        | 1,563,500            | 1,553,023           | (10,477)         |
| Expendable Trust                  | 4,000                | 24,598              | 20,598           |
| Agency                            | <u>955,000</u>       | <u>1,061,860</u>    | <u>106,860</u>   |
| Total                             | <u>\$ 4,973,125</u>  | <u>\$ 4,997,168</u> | <u>\$ 24,043</u> |

| 1998 Budgeted vs. Actual Budgetary Basis Expenditures |                            |                           |                   |
|---|----------------------------|---------------------------|-------------------|
| Fund Type   | Appropriation<br>Authority | Budgetary<br>Expenditures | Variance          |
| General   | \$ 1,249,256               | \$ 1,081,081              | \$ 168,175        |
| Special Revenue                                       | 443,633                    | 516,162                   | (72,529)          |
| Capital Projects                                      | 1,209,350                  | 872,897                   | 336,453           |
| Enterprise  | 1,691,315                  | 1,422,084                 | 269,231           |
| Expendable Trust                                      | 0                          | 27,889                    | (27,889)          |
| Agency  | <u>955,000</u>             | <u>760,533</u>            | <u>194,467</u>    |
| Total   | <u>\$ 5,548,554</u>        | <u>\$ 4,680,646</u>       | <u>\$ 867,908</u> |

**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 1998 AND 1997**  
**(Continued)**

**3. BUDGETARY ACTIVITY (Continued)**

| 1997 Budgeted vs. Actual Receipts |                      |                    |              |
|-----------------------------------|----------------------|--------------------|--------------|
| Fund Type                         | Budgeted<br>Receipts | Actual<br>Receipts | Variance     |
| General                           | \$ 1,091,811         | \$ 1,317,771       | \$ 225,960   |
| Special Revenue                   | 350,599              | 516,216            | 165,617      |
| Capital Projects                  | 128,000              | 606,927            | 478,927      |
| Enterprise                        | 1,326,900            | 1,495,960          | 169,060      |
| Expendable Trust                  | 1,500                | 19,635             | 18,135       |
| Agency                            | 695,000              | 1,008,324          | 313,324      |
| Total                             | \$ 3,593,810         | \$ 4,964,833       | \$ 1,371,023 |

| 1997 Budgeted vs. Actual Budgetary Basis Expenditures |                            |                           |            |
|---|----------------------------|---------------------------|------------|
| Fund Type   | Appropriation<br>Authority | Budgetary<br>Expenditures | Variance   |
| General   | \$ 1,256,943               | \$ 1,180,892              | \$ 76,051  |
| Special Revenue                                       | 566,707                    | 492,631                   | 74,076     |
| Capital Projects                                      | 855,756                    | 535,597                   | 320,159    |
| Enterprise  | 1,645,694                  | 1,529,307                 | 116,387    |
| Expendable Trust                                      | 14,639                     | 18,893                    | (4,254)    |
| Agency  | 1,395,000                  | 1,004,444                 | 390,556    |
| Total   | \$ 5,734,739               | \$ 4,761,764              | \$ 972,975 |

In 1997 and 1998, the City had several expenditures that were not encumbered prior to the purchase date. This was in violation of Ohio Rev. Code Section 5705.41(D), which prohibits the expenditure of monies unless there is attached thereto a certificate of the fiscal officer of the City that the amount required to meet the same has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund, free from any previous encumbrances.

At December 31, 1998, the City had expenditures exceeding appropriations of \$10,347 in the Permissive Fund, \$16,427 in the Street Levy Fund, \$2,630 in the Fire levy Fund, \$39,264 in the Grant Fund, \$8,235 in the Parking Meter Fund, \$27,889 in the Baird Trust Fund and \$5,508 in the Mayor's Court. At December 31, 1997 the City had expenditures exceeding appropriations of \$12,500 in the COPS Fast Fund, \$496 in the Water Deposit Fund, \$6,102 in the Baird Trust Fund, \$3,907 in the Mayor's Court Fund and \$41,327 in the Grant Fund. This was in violation of Ohio Rev. Code Section 5705.41(B), which prohibits the expenditure of funds unless they have been properly appropriated

At December 31, 1998, the City had appropriations that exceeded estimated resources of \$34,659 in the Street Construction, Maintenance and Repair Fund, \$1,900 in the Drug Enforcement Fund and \$873 in the Law Enforcement Fund. At December 31, 1997, the City had appropriations that exceeded estimated resources of \$18,098 in the Street Construction, Maintenance and Repair Fund, \$17,331 in the Grant Fund, \$24,602 in the Fire Levy Fund, \$4,521 in the Drug Enforcement Fund, \$1,500 in the Law Enforcement Trust Fund, \$10,733 in the Recreation Fund, \$485,263 in the Capital Improvement Fund, \$66,952 in the Grant Fund and \$604,914 in the Income Tax Fund. This was in violation of Ohio Rev. Code Section 5705.39, which prohibits appropriations from exceeding estimated resources.

**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 1998 AND 1997**  
**(Continued)**

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by City Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, the first half is due December 31. The second half payment is due the following June 20.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the City.

**5. DEBT**

Debt outstanding at December 31, 1998 was as follows:

|   | Principal    | Interest<br>Rate |
|---|--------------|------------------|
| Ohio Water Development Authority Loan #0892   | \$ 873,780   | 8.3%             |
| Ohio Water Development Authority Loan #418SRF | 593,764      | 2.2%             |
| General Obligation Bonds                      | 585,000      | 6.7-7.5%         |
| Mortgage Revenue Bonds                        | 245,000      | 8.5%             |
| Total   | \$ 2,297,544 |                  |

General obligation bonds were issued for the improvement of the water system. The mortgage revenue bonds and the Ohio Water Development Authority Loans (OWDA) were issued for the improvement of the sewer system. Property and revenue of the utility facilities have been pledged to repay these debts.

Amortization of the above debt, including interest, is scheduled as follows:

| Year ending<br>December 31: | OWDA<br>Loan | OWDA<br>Loan | General<br>Obligation<br>Bonds | Mortgage<br>Revenue<br>Bonds |
|-----------------------------|--------------|--------------|--------------------------------|------------------------------|
| 1999                        | \$ 103,710   | \$ 37,611    | \$ 37,520                      | \$ 60,825                    |
| 2000                        | 103,710      | 37,611       | 42,900                         | 57,425                       |
| 2001                        | 103,710      | 37,611       | 42,920                         | 59,025                       |
| 2002                        | 103,709      | 37,611       | 48,308                         | 60,200                       |
| 2003                        | 103,710      | 37,611       | 53,700                         | 60,950                       |
| Subsequent                  | 1,037,096    | 545,360      | 387,050                        | 16,275                       |
| Total                       | \$ 1,555,645 | \$ 733,415   | \$ 612,398                     | \$ 314,700                   |

The City has utilized a trustee to service the mortgage revenue bonds. Payments to the trustees are recorded as disbursements in the year deposited with the trustee. The market value of the account, as of December 31, 1998 was \$1,973. This amount is not reflected in the accompanying financial statements.



**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 1998 AND 1997**  
**(Continued)**

**6. RETIREMENT SYSTEMS**

The City's law enforcement officers and firefighters belong to the Police and Firemen's Disability and Pension Funds (PFDPF). Other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. PFDPF and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 1998 and 1997, members of PFDPF contributed 10% of their wages to the PFDPF. The City contributed an amount equal to 19.5% of their wages for police officers and 24% for fire fighters. PERS members contributed 8.5% of their gross salaries. The City contributed an amount equal to 13.55% of participants' gross salaries. The City has paid all contributions required through December 31, 1998

**7. RISK MANAGEMENT**

The City has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Vehicles
- Errors and omissions
- Inland Marine Coverage
- Crime Coverage
- Bonds

The City also provides health insurance to employees through a private carrier.

**8. LOCAL INCOME TAX**

This locally levied tax of one and one-half percent applied to gross salaries, wages and other personal service compensation earned by residents both in and out of the City and to earnings of non-residents (except certain transients) earned in the government. It also applies to net income to business organizations conducted within the City. Tax collections are credited to the City and amounted to \$993,056 in 1998, and \$939,986 in 1997. The City distributed the tax proceeds to the General Fund and the Capital Projects Fund in an 80/20 ratio, respectively.

**9. FISCAL EMERGENCY STATUS**

The City was declared to be in a state of emergency in February 1992, pursuant to Chapter 118, Ohio Revised Code, by the Auditor of State of Ohio. A Financial Planning Commission was appointed according to this chapter. The Commission was organized on May 12, 1992. The Commission appointed a Financial Supervisor on June 10, 1992.

The City was removed from fiscal emergency status and the existence of the Financial Planning Commission and its role in the operation of the City was terminated, as of December 18, 1998.

**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 1998 AND 1997**  
**(Continued)**

**10. YEAR 2000 ISSUE**

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the City's operations as early as fiscal year 1999.

The City has completed an inventory of computer systems and other equipment necessary to conducting City operations. The City has identified the following systems requiring Year 2000 remediation:

- *Financial reporting and billing and collection systems for utilities.* The City was remediating these systems as of December 31, 1998. Validation and testing of these systems have been completed as of June 11, 1999.
- *Payroll System.* The City was remediating this system as of December 31, 1998. Validation and testing of the system has been completed as of June 11, 1999.
- *Income Tax Collection System.* The City was remediating this system as of December 31, 1998. The City has completed the validation and testing stage for this system as of May 21, 1999.

Personal property and real estate tax collection for the City is handled by Athens County. The County is responsible for remediating this system, and is solely responsible for any costs associated with this project.

The State of Ohio distributes money to the City in the form of state grants. The State is responsible for remediating this system.

The City contracts with Ameritech for telephone services at the City's Police Department and Fire Department. Ameritech is responsible for remediating this system.

The City's Police and Fire Departments contract with Athens County Emergency Communications for 911 service. Athens County Emergency Communications is responsible for remediating this system.

The City' Police Department contracts with the Ohio State Highway Patrol for the Law Enforcement Automated Data System(LEADS). The Ohio State Highway Patrol is responsible for remediating this system.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the City is or will be Year 2000 ready, that the City's remediation efforts will be successful in whole or in part, or that parties with whom the City does business will be Year 2000 ready.



STATE OF OHIO  
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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL  
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

City of Nelsonville  
Athens County  
29 Fayette Street  
Nelsonville, Ohio 45764

To the City Council:

We have audited the accompanying financial statements of the City of Nelsonville, Athens County, Ohio (the City, as of and for the years ended December 31, 1998 and December 31, 1997, and have issued our report thereon dated October 14, 1999, wherein we noted that the City followed the cash basis of accounting formerly prescribed by the Auditor of State. The Ohio Administrative Code now requires the City to follow generally accepted accounting principles. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as item 1998-20705-001, 1998-20705-002, 1998-20705-003, 1998-20705-004 and 1998-20705-005. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated October 14, 1999.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its 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 judgement, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Finding as items 1998-20705-006, 1998-20705-007 and 1998-20705-008.

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

**Internal Control Over Financial Reporting**  
(Continued)

However, of the reportable conditions described above, we consider 1998-20705-006, 1998-20705-007 and 1998-20705-008 to be 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 management of the City in a separate letter dated October 14, 1999.

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

**Jim Petro**  
Auditor of State

October 14, 1999

**SCHEDULE OF FINDINGS  
DECEMBER 31, 1998 AND 1997**

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

**FINDING NUMBER 1998-20705-001**

Ohio Admin. Code Section 117-6-01 requires the City to prepare its annual financial report in accordance with generally accepted accounting principles. However, the City prepares its financial statements on the cash basis, a basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The City can be fined and various other legal administrative remedies may be taken against the City.

We recommend the City prepare its annual financial report in accordance with generally accepted accounting principles.

**FINDING NUMBER 1998-20705-002**

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

The following funds were found to have expenditures which exceeded appropriations:

December 31, 1998

| <u>FUND</u>                   | <u>APPROPRIATIONS</u> | <u>EXPENDITURES</u> | <u>VARIANCE</u> |
|-------------------------------|-----------------------|---------------------|-----------------|
| Permissive Sales Tax Fund     | \$22,000              | \$32,347            | \$10,347        |
| Street Levy Fund              | \$170,356             | \$186,783           | \$16,427        |
| Fire Levy Fund                | \$8,605               | \$11,235            | \$2,630         |
| Grant Fund (Capital Projects) | \$11,887              | \$51,151            | \$39,264        |
| Parking Meter Fund            | \$39,300              | \$47,535            | \$8,235         |
| Baird Trust Fund              | \$0                   | \$27,889            | \$27,889        |
| Mayor's Court Fund            | \$55,000              | \$60,508            | \$5,508         |

December 31, 1997

| <u>FUND</u>                   | <u>APPROPRIATIONS</u> | <u>EXPENDITURES</u> | <u>VARIANCE</u> |
|-------------------------------|-----------------------|---------------------|-----------------|
| COPS Fast Fund                | \$0                   | \$12,500            | \$12,500        |
| Water Deposit Fund            | \$11,100              | \$11,596            | \$496           |
| Baird Trust Fund              | \$11,305              | \$17,407            | \$6,102         |
| Mayor's Court Fund            | \$55,000              | \$58,907            | \$3,907         |
| Grant Fund (Capital Projects) | \$18,343              | \$59,670            | \$41,327        |
| Sewer Fund                    | \$656,893             | \$675,181           | \$18,288        |

We recommend the City implement a policy to ensure that expenditures do not exceed appropriations.

**SCHEDULE OF FINDINGS  
DECEMBER 31, 1998 AND 1997  
(Continued)**

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

**FINDING NUMBER 1998-20705-003**

Ohio Rev. Code Section 5705.41(D) states that no subdivision or taxing unit shall make any contracts or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund, free from any previous encumbrances.

During 1997, thirty-nine percent of the expenditures tested were not properly certified. During 1998, forty-three percent of the expenditures tested were not properly certified.

We recommend that expenditures be certified prior to the purchase.

**FINDING NUMBER 1998-20705-004**

Ohio Rev. Code Section 5705.39 states that the total appropriation from each fund should not exceed the total estimated resources. The following funds had appropriations that exceeded estimated resources:

December 31, 1998

| <u>FUND</u>   | <u>APPROPRIATIONS</u> | <u>ESTIMATED<br/>RESOURCES</u> | <u>VARIANCE</u> |
|---|-----------------------|--------------------------------|-----------------|
| Street Construction,<br>Maintenance and Repair Fund | \$123,255             | \$88,596                       | \$34,659        |
| Drug Enforcement Fund                               | \$1,900               | \$0                            | \$1,900         |
| Law Enforcement Trust Fund                          | \$627                 | \$1,500                        | \$873           |

December 31, 1997

| <u>FUND</u>   | <u>APPROPRIATIONS</u> | <u>ESTIMATED<br/>RESOURCES</u> | <u>VARIANCE</u> |
|---|-----------------------|--------------------------------|-----------------|
| Street Construction,<br>Maintenance and Repair Fund | \$108,341             | \$90,243                       | \$18,098        |
| Fire Levy Fund                                      | \$46,011              | \$21,409                       | \$24,602        |
| Drug Enforcement Fund                               | \$5,000               | \$479                          | \$4,521         |
| Law Enforcement Trust Fund                          | \$1,500               | \$0                            | \$1,500         |
| Recreation Fund                                     | \$34,900              | \$24,167                       | \$10,733        |
| Capital Improvement Fund                            | \$796,029             | \$310,767                      | \$485,262       |
| Grant Fund (Capital Projects)                       | \$66,952              | \$0                            | \$66,952        |
| Income Tax Fund                                     | \$1,340,000           | \$735,036                      | \$604,964       |

We recommend the City implement a policy to ensure appropriations don't exceed estimated resources.

**SCHEDULE OF FINDINGS  
DECEMBER 31, 1998 AND 1997  
(Continued)**

|  |
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| <b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS<br/>REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b> |
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**FINDING NUMBER 1998-20705-005**

Ohio Rev. Code Section 149.351 establishes guidelines against the destruction or damage of records. All records are the property of the public office and shall not be 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 for under Ohio Revised Code Section 149.38 to 149.42.

The cashbook for 1997 and the case files for January 1997 through May 1997 could not be located for the Mayor's Court.

We recommend all records of the City be maintained. We also recommend the City's Records Commission, established September 1999, create a records retention policy for the City.

**FINDING NUMBER 1998-20705-006**

There were no controls in place to ensure that appropriations and estimated resources were properly posted to the computer system. This resulted in incorrect amounts being posted to the system and City management using inaccurate information, from budgetary reports, in making financial decisions for the City. Several audit adjustments/reclassifications were made and agreed upon by the City, and are reflected Note 3 to the financial statements.

We recommend the City implement control procedures to ensure that the approved budgetary figures are being posted to the computer system correctly.

**FINDING NUMBER 1998-20705-007**

There were several transactions noted in 1997 and 1998 that were posted to an incorrect fund or account line item. This resulted in the financial statements being misstated. Several audit adjustments/reclassifications were made and agreed upon by the City, and are reflected in the accompanying financial statements.

We recommend the City Auditor and/or a designated employee review transaction types for proper posting and distribution. Also, we recommend the City segregate duties between the individuals assigned to input and review the information.

**FINDING NUMBER 1998-20705-008**

The City did not record State Issue II project funds as receipts and disbursements, as prescribed by Auditor of State Bulletin 89-17. Also, Ohio Water Development Authority loan proceeds and expenditures were not posted to financial statements. Audit adjustments were made and agreed upon by the City, and are reflected in the accompanying financial statements.

We recommend for projects involving State Issue II funds and OWDA funds, the City record a memorandum cash receipt and cash disbursement entry when notice of payment is received. The City should also obtain an amended certificate of estimated resources and make an appropriation for these funds.







STATE OF OHIO  
OFFICE OF THE AUDITOR  

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**CITY OF NELSONVILLE**

**ATHENS 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  
JANUARY 25, 2000**