



**Auditor of State
Betty Montgomery**

**CITY OF NELSONVILLE
ATHENS COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets	11
Statement of Activities.....	12
Balance Sheet – Governmental Funds	14
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budget Basis) – General Fund.....	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budget Basis) – Street Levy Fund	19
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budget Basis) – Community Development Block Grant Fund	20
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budget Basis) – Aquatic Center Fund.....	21
Statement of Fund Net Assets – Enterprise Funds	22
Statement of Revenues, Expenses and Change in Net Assets – Enterprise Funds	23
Statement of Cash Flows – Enterprise Funds	24
Statement of Fiduciary Assets and Liabilities – Agency Fund	25
Notes to the Basic Financial Statements	26
Schedule of Federal Awards Expenditures.....	53
Notes to the Schedule of Federal Awards Expenditures	54
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	55

**CITY OF NELSONVILLE
ATHENS COUNTY**

**TABLE OF CONTENTS
(Continued)**

TITLE	PAGE
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.....	57
Schedule of Findings – <i>OMB Circular A-133 § .505</i>	59
Schedule of Prior Audit Findings – <i>OMB Circular A-133 §.315(b)</i>	63
Corrective Action Plan – <i>OMB Circular A-133 §.315(c)</i>	64



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

City of Nelsonville
Athens County
211 Lake Hope Drive
P.O. Box 370
Nelsonville, Ohio 45764

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nelsonville, Athens County, Ohio (the City), as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nelsonville, Athens County, Ohio, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General, Street Levy, Community Development Block Grant, and Aquatic Center Funds thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2003, the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The City also implemented GASB Statements 37, 38, 41 and Interpretation 6 concurrently with GASB Statement 34.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the City's basic financial statements. The Schedule of Federal Awards Expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the Schedule of Federal Awards Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated, in all material respects, in relation to the basic 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

September 20, 2004

City of Nelsonville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

The discussion and analysis of the City of Nelsonville's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2003. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2003 are as follows:

- In total, net assets increased \$7,026,757. Net assets of governmental activities increased \$6,907,902 or 114 percent from 2002. Net assets of business-type activities increased \$118,855, which represents a 4 percent increase from 2002.
- In total, cash and cash equivalents decreased \$23,121 or .6 percent. Total cash and cash equivalents of governmental activities increased \$88,394 or 4 percent, while cash and cash equivalents in our business-type activities decreased \$111,515 or 9 percent.
- Overall, capital assets increased \$7,828,435. Total capital assets from governmental activities increased \$6,470,994 or 106 percent. Capital assets of business-type activities increased \$1,357,441 or 26 percent. The increase in governmental activities capital assets is due to the completion of the US 33 Highway Improvement Project undertaken by the Ohio Department of Transportation (ODOT). The value, as determined by ODOT, is \$6,301,719.

USING THIS ANNUAL FINANCIAL REPORT

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

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

Reporting the City of Nelsonville as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

City of Nelsonville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

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

- **Governmental Activities** – Most of the City's services are reported here including police, fire, administration, and all departments with the exception of our Water, Sewer, and Parking Meter Funds.
- **Business-Type Activities** – Water and sewer services, as well as parking meter enforcement, have charges based on the amounts of usage. The City charges fees to recoup the cost of the entire operations of our Water and Sewer Treatment Plants, and Parking Meters, as well as all capital expenses associated with the facilities and equipment.

Reporting the City of Nelsonville's Most Significant Funds

Fund Financial Statements

The basic governmental fund financial statements begin on page 14. Fund financial reports provide detailed information about the City's major funds. Based upon restrictions on the use of monies, the City has established many funds which account for the multitude of services provided to our residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Nelsonville, our major funds are the General, Street Levy, Community Development Block Grant, Aquatic Center, Capital Improvements, Water, Sewer, and Parking Meter Funds.

Governmental Funds Most of the City's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future on services provided to our residents. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled as part of the financial statements.

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

THE CITY OF NELSONVILLE AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the City as a whole. Table 1 provides a summary of the City's net assets for 2003 compared to 2002.

City of Nelsonville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

(Table 1)
 Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Assets						
Current and Other Assets	\$3,428,961	\$3,304,099	\$1,626,218	\$2,787,657	\$5,055,179	\$6,091,756
Capital Assets, Net	12,564,620	6,093,626	6,510,628	5,153,187	19,075,248	11,246,813
<i>Total Assets</i>	<u>15,993,581</u>	<u>9,397,725</u>	<u>8,136,846</u>	<u>7,940,844</u>	<u>24,130,427</u>	<u>17,338,569</u>
Liabilities						
Current and Other Liabilities	833,502	879,808	364,712	371,865	1,198,214	1,251,673
Long-Term Liabilities:						
Due within One Year	1,691,855	262,384	214,520	231,145	1,906,375	493,529
Due in More than One Year	479,013	2,132,653	2,661,320	2,560,395	3,140,333	4,693,048
<i>Total Liabilities</i>	<u>3,004,370</u>	<u>3,274,845</u>	<u>3,240,552</u>	<u>3,163,405</u>	<u>6,244,922</u>	<u>6,438,250</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	10,493,220	3,749,861	3,646,732	2,399,400	14,139,952	6,149,261
Restricted for:						
Unclaimed Monies	8,447	7,964	0	0	8,447	7,964
Other Purposes	745,502	707,917	0	0	745,502	707,917
Capital Projects	1,287,370	1,187,902	0	0	1,287,370	1,187,902
Debt Service	0	0	91,626	91,644	91,626	91,644
Unrestricted	454,672	427,665	1,157,936	2,286,395	1,612,608	2,714,060
<i>Total Net Assets</i>	<u>\$12,989,211</u>	<u>\$6,081,309</u>	<u>\$4,896,294</u>	<u>\$4,777,439</u>	<u>\$17,885,505</u>	<u>\$10,858,748</u>

Total assets increased \$6,791,858. Total cash and cash equivalents decreased \$23,121, as governmental and business-type activities capital assets increased \$6,470,994 and \$1,357,441, respectively. The increase in capital assets in the business-type activities is due to increased capital acquisitions, mostly for the completions of the sewer and water treatment plant improvements projects that exceeded current year depreciation.

Total governmental activities liabilities decreased \$270,475. Current liabilities decreased \$46,306. This is mainly due to decreases in contracts and vacation benefits payable. Long-term liabilities decreased \$224,169 as the City made required loan payments greater than the new debt issues in 2003.

Net assets of the City's governmental activities increased \$6,907,902. Most of this increase can be attributed to the completion of the US 33 Highway Improvement project. This project began in February of 2003 and was completed in December of 2003. The value of this project, as determined by the Ohio Department of Transportation, is \$6,301,719.

The net assets of the City's business-type activities increased \$118,855. Most of this increase is due to the continued construction projects the City has undertaken in its water and sewer funds. With usage rates generating operating revenue which exceeds the expenses, the financial condition of the City's business-type activities is sound. The City continued to invest heavily in its water and sewer treatment facilities. The Dorr Run sewer improvements and the State Route 33 water and sewer improvements that began in 2001 were completed by the end of 2003. Total amounts expensed on these upgrades were \$1,133,654.

Table 2 shows the changes in net assets for the year ended December 31, 2003. Since this is the first year the City of Nelsonville has prepared financial statements following GASB Statement 34, revenue and expense comparisons to year 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

City of Nelsonville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

(Table 2)
Changes in Net Assets

	Governmental Activities 2003	Business-Type Activities 2003	Total 2003
Revenues			
Program Revenues			
Charges for Services	\$164,232	\$1,592,921	\$1,757,153
Operating Grants, Contributions and Interest	190,247	0	190,247
Capital Grants and Contributions	6,604,429	50,121	6,654,550
Total Program Revenues	6,958,908	1,643,042	8,601,950
General Revenues			
Property Taxes	407,362	0	407,362
Income Taxes	1,234,933	0	1,234,933
Grants and Entitlements	303,208	0	303,208
Interest	96,776	0	96,776
Other	49,763	24,026	73,789
Total General Revenues	2,092,042	24,026	2,116,068
Total Revenues	9,050,950	1,667,068	10,718,018
Program Expenses			
General Government	415,397	0	415,397
Security of Persons and Property:			
Police	662,735	0	662,735
Fire	255,171	0	255,171
Public Health Services	4,642	0	4,642
Transportation	251,235	0	251,235
Leisure Time Activities	192,515	0	192,515
Community Environment	292,714	0	292,714
Interest and Fiscal Charges	63,639	0	63,639
Water	0	856,248	856,248
Sewer	0	691,608	691,608
Parking Meter	0	5,357	5,357
Total Program Expenses	2,138,048	1,553,213	3,691,261
<i>Increase Before Transfers</i>	6,912,902	113,855	7,026,757
Transfers	(5,000)	5,000	0
Increase in Net Assets	\$6,907,902	\$118,855	\$7,026,757

Governmental Activities

Several revenue sources fund our governmental activities, with the grants and entitlements being the biggest contributor in 2003. The City income tax is also a very large revenue generator. The City income tax rate is 1.75 percent. The City monitors both of these revenue sources very closely for fluctuations because the intergovernmental revenue and the income tax represent 93 percent of all revenues in governmental activities.

As with the further slowdown in the national economy, income tax collections experienced a decrease of \$84,022 or 6 percent. The City Auditor's office has established procedures for identifying delinquent accounts.

City of Nelsonville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

The City has worked very hard on increasing our income tax base by being proactive with new businesses and is continuing to strive to provide better service to the taxpayers at the lowest possible cost. The ability of the City to continue to provide quality services without income tax increases rests on City Management's ability to keep costs in line. The level of services provided have put a strain on the City's finances since no increase has occurred in the income tax rates since the addition of .25 percent for the construction of the Aquatic Center in 1998.

Security of persons and property is a major activity of the City, generating 43 percent of the governmental expenses. During 2003, expenses for police and fire operations amounted to \$662,735 and \$255,171, respectively. These activities are, for the most part, funded by the municipal income tax. The City attempts to supplement the income and activities of the police department to enable the police department to widen the scope of its activities. The fire department has continued to work hand in hand with the City to help reduce costs to the taxpayer.

Transportation activities of the City accounted for 12 percent of the governmental expenses. Street paving, patching, and street light expenses during 2003 amounted to \$251,235.

Park and aquatic center activities of the City accounted for 14 percent of the governmental expenses.

Business-Type Activities

The City's business-type activities are the water and sewer departments and parking meter services. During 2003, program revenues exceeded expenses by \$89,829.

The City's water and sewer departments continued to operate with low rates. The minimum water rate is \$7.25 and the minimum sewer rate is \$10.00 for the first 1,500 gallons. Water and sewer rates for two surrounding communities are \$8.84 and \$9.25 for water and \$9.61 and \$11.27 for sewer. The water and sewer improvements were completed in 2003. This includes Dorr Run water and sewer improvements, State Route 33 water and sewer improvements, and the installation of a new sewer digester.

THE CITY'S FUNDS

The City's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$9,040,506 and expenditures of \$10,524,021.

General Fund Budgeting Highlights

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

During the course of 2003, the City amended its General Fund budget several times, none significant. All recommendations for a budget change came from the City Auditor to the Finance Committee of Council for review before going to the whole Council for Ordinance enactment on the change. The allocation of appropriations among departments and objects within a fund may be modified during the year by the City Auditor without an ordinance of Council. With the General Fund supporting many of our major activities such as our police and fire departments, as well as most legislative and executive activities, the General Fund is monitored closely looking for possible revenue shortfalls or over spending by individual departments.

For the General Fund, an increase of \$251,000 was made to the original budgeted revenues. Final budgeted expenditures also increased \$276,448 over the original amount. The City of Nelsonville's ending unencumbered cash balance in the General Fund was \$14,077 above the final budgeted amount.

City of Nelsonville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

(Table 3)
 Capital Assets at December 31, 2003

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$397,263	\$397,263	\$155,955	\$155,955	\$553,218	\$553,218
Land Improvements	149,050	155,793	8,889	9,633	157,939	165,426
Buildings and Improvements	2,572,568	2,636,608	0	0	2,572,568	2,636,608
Furniture, Fixtures, and Equipment	275,628	299,632	245,753	256,413	521,381	556,045
Vehicles	510,941	563,671	20,700	27,700	531,641	591,371
Infrastructure:						
U.S. and State Roads	6,280,637	166,786	0	0	6,280,637	166,786
City Streets	1,948,555	1,413,981	0	0	1,948,555	1,413,981
Street Signals	429,978	459,892	0	0	429,978	459,892
Water System	0	0	2,467,255	1,855,173	2,467,255	1,855,173
Sewer System	0	0	3,612,076	2,848,313	3,612,076	2,848,313
Totals	\$12,564,620	\$6,093,626	\$6,510,628	\$5,153,187	\$19,075,248	\$11,246,813

The assets of the City are reported at historical cost, net of depreciation. The primary increase is U.S. and State Roads in the governmental activities due to the Ohio Department of Transportation's completion of the U.S. 33 Bypass construction project in 2003. For additional information on capital assets, see Note 8 to the basic financial statements.

Debt

The City had two bond issues outstanding, as well as various loans and capital leases payable at December 31, 2003, totaling \$4,935,296 of which \$1,904,543 is due within one year. The City has two bonds outstanding, one each for water and sewer system improvements; five Ohio Water Development Authority Loans outstanding, four for sewer system improvements and expansions, and one for water system improvements; a bond anticipation note used for the construction of the City's aquatic center and the purchase and renovation of the administrative complex; a loan used for the acquisition of computer equipment; as well as various leases for vehicles and office equipment.

City of Nelsonville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

(Table 3)
 Outstanding Debt at December 31, 2003

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Water General						
Obligation Bonds	\$0	\$0	\$375,000	\$425,000	\$375,000	\$425,000
Sewer Mortgage						
Revenue Bonds	0	0	15,000	70,000	15,000	70,000
OWDA Loans	0	0	2,442,925	2,247,120	2,442,925	2,247,120
Bond Anticipation Note	1,625,000	1,825,000	0	0	1,625,000	1,825,000
Dell Loan	2,656	4,592	0	0	2,656	4,592
Capital Leases	443,744	472,602	30,971	39,890	474,715	512,492
Police Pension	81,158	82,373	0	0	81,158	82,373
Fire Pension	937	950	0	0	937	950
Totals	<u>\$2,153,495</u>	<u>\$2,385,517</u>	<u>\$2,863,896</u>	<u>\$2,782,010</u>	<u>\$5,017,391</u>	<u>\$5,167,527</u>

The bond anticipation notes are being paid from the Aquatic Center and Capital Improvement Funds from income tax revenues. The capital leases are being paid from the General, Street Levy, Aquatic Center, Mayor's Court Computer, Water, and Sewer Funds. The General Fund and Street Levy Special Revenue Fund portions will be paid from property tax revenues, the Aquatic Center's portion will be paid from income tax revenues, the Mayor's Court receipts have been pledged for the Mayor's Court Computerization Fund and Water and Sewer portions will be paid from charges for services.

At year end, the City had contractual commitments of \$88,000, of which \$40,050 had been expended for the State Route 278 Water and Sewer Improvements, a new sewer lift station, and the Terrace Drive Improvement projects.

The City's overall legal debt margin was \$4,729,986 at December 31, 2003. For additional information on debt, see Note 14 to the basic financial statements.

CURRENT ISSUES

As the preceding information shows, the City depends heavily on its taxpayers and grants and entitlements. Stress on the City's finances is ongoing. However, infrastructure improvements and upgrades are continuing. These include the State Route 278 Water and Sewer Improvements, continued improvements to City Streets, and improvements to both the water and sewer plants.

CONTACTING THE CITY AUDITOR'S DEPARTMENT

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Aileen Lehman, Nelsonville City Auditor, 211 Lake Hope Drive, Nelsonville, Ohio 45764.

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City of Nelsonville, Ohio
Statement of Net Assets
December 31, 2003

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,316,789	\$1,069,464	\$3,386,253
Cash and Cash Equivalents in Segregated Accounts	5,979	35	6,014
Investments	24,063	0	24,063
Cash and Cash Equivalents with Fiscal Agents	0	197	197
Investments with Fiscal Agents	0	91,429	91,429
Property Taxes Receivable	388,401	0	388,401
Income Taxes Receivable	160,626	0	160,626
Accounts Receivable	138	291,599	291,737
Intergovernmental Receivable	491,710	157,000	648,710
Prepaid Items	34,216	16,494	50,710
Accrued Interest Receivable	7,039	0	7,039
Nondepreciable Capital Assets	397,263	155,955	553,218
Depreciable Capital Assets, Net	12,167,357	6,354,673	18,522,030
Total Assets	15,993,581	8,136,846	24,130,427
Liabilities			
Accounts Payable	24,827	44,236	69,063
Contracts Payable	313,564	150,976	464,540
Accrued Wages and Benefits Payable	23,479	13,534	37,013
Accrued Interest Payable	24,041	50,813	74,854
Vacation Benefits Payable	19,527	22,810	42,337
Judgements Payable	17,000	0	17,000
Deferred Revenue	370,084	0	370,084
Intergovernmental Payable	40,980	19,002	59,982
Customer Deposits Payable	0	63,341	63,341
Long-Term Liabilities:			
Due within One Year	1,691,855	214,520	1,906,375
Due in More than One Year	479,013	2,661,320	3,140,333
Total Liabilities	3,004,370	3,240,552	6,244,922
Net Assets			
Invested in Capital Assets, Net of Related Debt	10,493,220	3,646,732	14,139,952
Restricted for:			
Unclaimed Monies	8,447	0	8,447
Other Purposes	745,502	0	745,502
Capital Projects	1,287,370	0	1,287,370
Debt Service	0	91,626	91,626
Unrestricted	454,672	1,157,936	1,612,608
Total Net Assets	\$12,989,211	\$4,896,294	\$17,885,505

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
Statement of Activities
For the Year Ended December 31, 2003

	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions
Governmental Activities				
General Government	\$415,397	\$5,193	\$0	\$0
Security of Persons and Property:				
Police	662,735	91,702	0	0
Fire	255,171	2,000	0	0
Public Health Services	4,642	0	0	0
Transportation	251,235	0	170,087	6,301,719
Leisure Time Activities	192,515	65,337	14,970	0
Community Environment	292,714	0	5,190	302,710
Interest and Fiscal Charges	63,639	0	0	0
<i>Total Governmental Activities</i>	<u>2,138,048</u>	<u>164,232</u>	<u>190,247</u>	<u>6,604,429</u>
Business-Type Activities				
Water	856,248	817,312	0	15,915
Sewer	691,608	767,910	0	34,206
Parking Meter	5,357	7,699	0	0
<i>Total Business-Type Activities</i>	<u>1,553,213</u>	<u>1,592,921</u>	<u>0</u>	<u>50,121</u>
Totals	<u>\$3,691,261</u>	<u>\$1,757,153</u>	<u>\$190,247</u>	<u>\$6,654,550</u>

General Revenues

Property Taxes Levied for:
 General Purposes
 Street Construction and Maintenance
 Parks and Recreation
Income Taxes Levied for:
 General Purposes
 Aquatic Center
 Capital Improvements
Grants and Entitlements not Restricted to Specific Programs
Interest
Other

Total General Revenues

Transfers

Change in Net Assets

Net Assets at Beginning of Year - See Note 3

Net Assets at End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$410,204)	\$0	(\$410,204)
(571,033)	0	(571,033)
(253,171)	0	(253,171)
(4,642)	0	(4,642)
6,220,571	0	6,220,571
(112,208)	0	(112,208)
15,186	0	15,186
(63,639)	0	(63,639)
4,820,860	0	4,820,860
0	(23,021)	(23,021)
0	110,508	110,508
0	2,342	2,342
0	89,829	89,829
4,820,860	89,829	4,910,689
153,213	0	153,213
237,513	0	237,513
16,636	0	16,636
739,909	0	739,909
176,897	0	176,897
318,127	0	318,127
303,208	0	303,208
96,776	0	96,776
49,763	24,026	73,789
2,092,042	24,026	2,116,068
(5,000)	5,000	0
6,907,902	118,855	7,026,757
6,081,309	4,777,439	10,858,748
<u>\$12,989,211</u>	<u>\$4,896,294</u>	<u>\$17,885,505</u>

City of Nelsonville, Ohio

Balance Sheet

Governmental Funds

December 31, 2003

	General	Street Levy	Community Development Block Grant	Aquatic Center	Capital Improvements
Assets					
Equity in Pooled Cash and Cash Equivalents	\$441,451	\$80,719	\$0	\$212,468	\$1,248,138
Cash and Cash Equivalents in Segregated Accounts	5,609	0	0	0	0
Investments	0	0	0	24,063	0
Receivables:					
Property Taxes	141,399	171,737	0	0	0
Income Taxes	96,376	0	0	22,486	41,764
Accounts	138	0	0	0	0
Intergovernmental	137,667	12,577	278,425	0	0
Accrued Interest	7,039	0	0	0	0
Interfund	262	0	0	0	0
Prepaid Items	24,544	1,098	0	1,065	1,151
Total Assets	\$854,485	\$266,131	\$278,425	\$260,082	\$1,291,053
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$12,881	\$2,226	\$0	\$257	\$0
Contracts Payable	1,292	0	308,169	320	3,683
Accrued Wages and Benefits Payable	19,943	3,433	0	103	0
Interfund Payable	0	0	262	0	0
Intergovernmental Payable	11,634	2,627	0	200	0
Judgements Payable	17,000	0	0	0	0
Deferred Revenue	307,983	184,314	278,425	11,291	20,975
Total Liabilities	370,733	192,600	586,856	12,171	24,658
Fund Balances					
Reserved for Encumbrances	47,016	0	0	0	18,600
Reserved for Unclaimed Monies	8,447	0	0	0	0
Unreserved, Undesignated, Reported in:					
General Fund	428,289	0	0	0	0
Special Revenue Funds (Deficit)	0	73,531	(308,431)	247,911	0
Capital Project Funds	0	0	0	0	1,247,795
Total Fund Balances (Deficit)	483,752	73,531	(308,431)	247,911	1,266,395
Total Liabilities and Fund Balances	\$854,485	\$266,131	\$278,425	\$260,082	\$1,291,053

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
*Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
December 31, 2003*

Other Governmental Funds	Total Governmental Funds		\$2,104,536
\$334,013	\$2,316,789	Total Governmental Fund Balances	
370	5,979	Amounts reported for governmental activities in the statement of net assets are different because	
0	24,063	Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.	12,564,620
75,265	388,401	Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds:	
0	160,626	Property Taxes	18,317
0	138	Income Taxes	80,667
63,041	491,710	Interest	7,039
0	7,039	Intergovernmental Revenues	454,736
0	262	Other Receivables	251
6,358	34,216		561,010
<u>\$479,047</u>	<u>\$3,429,223</u>	Intergovernmental Payable includes contractually required pension contributions which are not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(26,519)
\$9,463	\$24,827	Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
100	313,564	Police Pension Payable	(81,158)
0	23,479	Fire Pension Payable	(937)
0	262	Notes Payable	(1,625,000)
0	14,461	Loans Payable	(2,656)
0	17,000	Capital Leases Payable	(443,744)
128,106	931,094	Accrued Interest Payable	(24,041)
137,669	1,324,687	Vacation Benefits Payable	(19,527)
2,687	68,303	Sick Leave Benefits Payable	(17,373)
0	8,447		(2,214,436)
0	428,289	Net Assets of Governmental Activities	\$12,989,211
338,691	351,702		
0	1,247,795		
341,378	2,104,536		
<u>\$479,047</u>	<u>\$3,429,223</u>		

City of Nelsonville, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2003

	General	Street Levy	Community Development Block Grant	Aquatic Center	Capital Improvements
Revenues					
Property Taxes	\$159,603	\$180,557	\$0	\$0	\$0
Income Taxes	744,977	0	0	178,082	320,321
Intergovernmental	283,726	14,755	296,625	0	6,301,719
Charges for Services	684	0	0	65,337	0
Fines, Licenses, and Permits	93,382	0	0	0	0
Interest	87,624	0	0	1,690	423
Gifts and Donations	0	0	0	13,583	0
Other	18,881	10,106	0	20,642	0
Total Revenues	1,388,877	205,418	296,625	279,334	6,622,463
Expenditures					
Current:					
General Government	409,770	0	0	0	0
Security of Persons and Property:					
Police	651,341	0	0	0	0
Fire	209,743	0	0	0	0
Public Health Services	4,642	0	0	0	0
Transportation	8	199,553	0	0	0
Leisure Time Activities	0	0	0	110,654	0
Community Environment	0	0	270,320	0	0
Capital Outlay	0	0	0	0	6,470,416
Debt Service:					
Principal Retirement	54,425	3,306	0	1,460,380	365,370
Interest and Fiscal Charges	29,752	604	0	40,258	10,015
Total Expenditures	1,359,681	203,463	270,320	1,611,292	6,845,801
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>29,196</u>	<u>1,955</u>	<u>26,305</u>	<u>(1,331,958)</u>	<u>(223,338)</u>
Other Financing Sources (Uses)					
Inception of Capital Lease	27,252	0	0	0	0
Proceeds of Notes	0	0	0	1,300,000	325,000
Transfers Out	(5,000)	0	0	0	0
Total Other Financing Sources (Uses)	22,252	0	0	1,300,000	325,000
Net Change in Fund Balance	51,448	1,955	26,305	(31,958)	101,662
<i>Fund Balances at Beginning of Year - Restated (See Note 3)</i>	<u>432,304</u>	<u>71,576</u>	<u>(334,736)</u>	<u>279,869</u>	<u>1,164,733</u>
Fund Balances (Deficit) at End of Year	<u>\$483,752</u>	<u>\$73,531</u>	<u>(\$308,431)</u>	<u>\$247,911</u>	<u>\$1,266,395</u>

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2003*

Other Governmental Funds	Total Governmental Funds		
		Net Change in Fund Balances - Total Governmental Funds	\$165,677
		Amounts reported for governmental activities in the statement of activities are different because	
		Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period:	
\$79,134	\$419,294	Capital Assets Additions	7,115,498
0	1,243,380	Depreciation Expense	<u>(644,504)</u> 6,470,994
153,961	7,050,786		
0	66,021		
4,712	98,094		
4,792	94,529		
5,190	18,773		
0	49,629		
<u>247,789</u>	<u>9,040,506</u>		
		Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
		Property Taxes	(11,932)
		Income Taxes	(8,447)
1,940	411,710	Interest	7,039
		Grants	(2,625)
1,446	652,787	Estate Taxes	4,800
0	209,743	Accounts Receivable	251
0	4,642	State Shared Revenues	<u>21,358</u> 10,444
191,921	391,482		
20,100	130,754		
16,012	286,332	Repayments of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	1,884,986
0	6,470,416		
1,505	1,884,986		
540	81,169	In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, interest is expended when due.	17,530
<u>233,464</u>	<u>10,524,021</u>		
		Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported:	
14,325	(1,483,515)	Inception of Capital Lease	(29,192)
		Proceeds of Notes	<u>(1,625,000)</u> (1,654,192)
1,940	29,192		
0	1,625,000		
0	(5,000)	Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
1,940	1,649,192	Police Pension Payable	1,214
		Fire Pension Payable	14
16,265	165,677	Intergovernmental Payables	1,259
		Vacation Benefits Payable	17,829
		Sick Leave Benefits Payable	<u>(7,853)</u> 12,463
<u>325,113</u>	<u>1,938,859</u>		
<u>\$341,378</u>	<u>\$2,104,536</u>	<i>Change in Net Assets of Governmental Activities</i>	<u>\$6,907,902</u>

City of Nelsonville, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Year Ended December 31, 2003*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property Taxes	\$118,200	\$165,850	\$159,603	(\$6,247)
Income Taxes	720,500	724,400	757,834	33,434
Intergovernmental	160,500	274,000	264,250	(9,750)
Charges for Services	4,500	5,500	2,456	(3,044)
Fines, Licenses, and Permits	93,550	102,000	95,933	(6,067)
Interest	28,000	93,500	94,405	905
Other	11,500	22,500	21,266	(1,234)
<i>Total Revenues</i>	<u>1,136,750</u>	<u>1,387,750</u>	<u>1,395,747</u>	<u>7,997</u>
Expenditures				
Current:				
General Government	393,963	463,002	459,477	3,525
Security of Persons and Property:				
Police	478,800	650,930	647,595	3,335
Fire	234,800	269,598	265,116	4,482
Public Health Services	5,000	4,642	4,642	0
Transportation	0	8	8	0
Debt Service:				
Principal Retirement	0	645	645	0
Interest and Fiscal Charges	0	186	186	0
<i>Total Expenditures</i>	<u>1,112,563</u>	<u>1,389,011</u>	<u>1,377,669</u>	<u>11,342</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>24,187</u>	<u>(1,261)</u>	<u>18,078</u>	<u>19,339</u>
Other Financing Uses				
Advances Out	0	0	(262)	(262)
Transfers Out	0	0	(5,000)	(5,000)
<i>Total Other Financing Uses</i>	<u>0</u>	<u>0</u>	<u>(5,262)</u>	<u>(5,262)</u>
<i>Net Change in Fund Balance</i>	24,187	(1,261)	12,816	14,077
<i>Fund Balance at Beginning of Year</i>	345,717	345,717	345,717	0
Prior Year Encumbrances Appropriated	<u>26,764</u>	<u>26,764</u>	<u>26,764</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u>\$396,668</u>	<u>\$371,220</u>	<u>\$385,297</u>	<u>\$14,077</u>

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)*
Street Levy Fund
For the Year Ended December 31, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$176,800	\$184,780	\$180,557	(\$4,223)
Intergovernmental	22,180	18,700	14,755	(3,945)
Other	4,500	0	10,448	10,448
<i>Total Revenues</i>	203,480	203,480	205,760	2,280
Expenditures				
Current:				
Transportation	157,600	205,005	200,868	4,137
<i>Net Change in Fund Balance</i>	45,880	(1,525)	4,892	(1,857)
<i>Fund Balance at Beginning of Year</i>	72,817	72,817	72,817	0
Prior Year Encumbrances Appropriated	2,905	2,905	2,905	0
<i>Fund Balance at End of Year</i>	<u>\$121,602</u>	<u>\$74,197</u>	<u>\$80,614</u>	<u>(\$1,857)</u>

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
Community Development Block Grant Fund
For the Year Ended December 31, 2003*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	<u>\$0</u>	<u>\$309,991</u>	<u>\$315,575</u>	<u>\$5,584</u>
Expenditures				
Current:				
Community Environment	<u>0</u>	<u>878,562</u>	<u>376,275</u>	<u>502,287</u>
<i>Excess of Revenues Under Expenditures</i>	0	(568,571)	(60,700)	(496,703)
Other Financing Sources				
Transfers In	<u>0</u>	<u>0</u>	<u>262</u>	<u>262</u>
<i>Net Change in Fund Balance</i>	0	(568,571)	(60,438)	(496,441)
<i>Fund Balance (Deficit) at Beginning of Year</i>	(517,999)	(517,999)	(517,999)	0
Prior Year Encumbrances Appropriated	<u>578,437</u>	<u>578,437</u>	<u>578,437</u>	<u>0</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u><u>\$60,438</u></u>	<u><u>(\$508,133)</u></u>	<u><u>\$0</u></u>	<u><u>(\$496,441)</u></u>

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
Aquatic Center Fund
For the Year Ended December 31, 2003*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Income Taxes	\$175,000	\$175,000	\$181,081	\$6,081
Charges for Services	77,250	77,250	65,337	(11,913)
Interest	0	0	1,690	1,690
Other	15,000	15,000	20,642	5,642
<i>Total Revenues</i>	<u>267,250</u>	<u>267,250</u>	<u>268,750</u>	<u>1,500</u>
Expenditures				
Current:				
Leisure Time Activities	134,400	134,670	110,891	23,779
Debt Service:				
Principal Retirement	1,772,000	1,724,722	1,459,630	265,092
Interest and Fiscal Charges	0	47,278	40,011	7,267
<i>Total Expenditures</i>	<u>1,906,400</u>	<u>1,906,670</u>	<u>1,610,532</u>	<u>296,138</u>
<i>Excess of Revenues Under Expenditures</i>	(1,639,150)	(1,639,420)	(1,341,782)	297,638
Other Financing Sources				
Proceeds of Notes	1,300,000	1,300,000	1,300,000	0
<i>Net Change in Fund Balance</i>	(339,150)	(339,420)	(41,782)	297,638
<i>Fund Balance at Beginning of Year</i>	253,980	253,980	253,980	0
Prior Year Encumbrances Appropriated	270	270	270	0
<i>Fund Balance (Deficit) at End of Year</i>	<u>(\$84,900)</u>	<u>(\$85,170)</u>	<u>\$212,468</u>	<u>\$297,638</u>

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
Statement of Fund Net Assets
Enterprise Funds
December 31, 2003

	Water	Sewer	Parking Meter	Total Enterprise Funds
Assets				
Current :				
Equity in Pooled Cash and Cash Equivalents	\$939,298	\$59,099	\$7,726	\$1,006,123
Cash and Cash Equivalents in Segregated Accounts	0	0	35	35
Restricted Assets:				
Customer Deposits	38,005	25,336	0	63,341
Cash and Cash Equivalents with Fiscal Agents	197	0	0	197
Investments with Fiscal Agents	0	91,429	0	91,429
Accounts Receivable	133,926	157,673	0	291,599
Intergovernmental Receivable	48,199	108,801	0	157,000
Prepaid Items	10,907	5,587	0	16,494
Total Current Assets	1,170,532	447,925	7,761	1,626,218
Noncurrent:				
Nondepreciable Capital Assets	36,497	119,458	0	155,955
Depreciable Capital Assets, Net	2,562,637	3,792,036	0	6,354,673
Total Noncurrent Assets	2,599,134	3,911,494	0	6,510,628
Total Assets	3,769,666	4,359,419	7,761	8,136,846
Liabilities				
Current:				
Accounts Payable	15,562	28,654	20	44,236
Contracts Payable	148,001	2,975	0	150,976
Accrued Wages and Benefits Payable	7,603	5,744	187	13,534
Accrued Interest Payable	5,077	45,630	0	50,707
Vacation Benefits Payable	16,416	6,394	0	22,810
Intergovernmental Payable	8,932	9,858	0	18,790
General Obligation Bonds Payable	50,000	0	0	50,000
Revenue Bonds Payable	0	15,000	0	15,000
OWDA Loans Payable	10,951	124,964	0	135,915
Capital Leases Payable	4,012	9,593	212	13,817
Total Current Liabilities	266,554	248,812	419	515,785
Current Liabilities Payable from Restricted Assets:				
Customer Deposits Payable	38,005	25,336	0	63,341
Accrued Interest Payable	0	106	0	106
Total Payable from Restricted Assets	38,005	25,442	0	63,447
Long-Term:				
General Obligation Bonds Payable	325,000	0	0	325,000
OWDA Loans Payable	248,284	2,058,726	0	2,307,010
Capital Leases Payable	4,635	12,731	0	17,366
Compensated Absences Payable	7,326	4,618	0	11,944
Total Long-Term Liabilities	585,245	2,076,075	0	2,661,320
Total Liabilities	889,804	2,350,329	419	3,240,552
Net Assets				
Invested in Capital Assets, Net of Related Debt	1,956,252	1,690,480	0	3,646,732
Restricted for Debt Service	197	91,429	0	91,626
Unrestricted	923,413	227,181	7,342	1,157,936
Total Net Assets	\$2,879,862	\$2,009,090	\$7,342	\$4,896,294

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
*Statement of Revenues, Expenses
and Changes in Fund Net Assets
Enterprise Funds
For the Year December 31, 2003*

	Water	Sewer	Parking Meter	Total Enterprise Funds
Operating Revenues				
Charges for Services	\$817,312	\$767,910	\$7,699	\$1,592,921
Other Operating Revenues	12,647	11,379	0	24,026
<i>Total Operating Revenues</i>	<u>829,959</u>	<u>779,289</u>	<u>7,699</u>	<u>1,616,947</u>
Operating Expenses				
Salaries and Wages	280,693	225,422	187	506,302
Fringe Benefits	120,079	95,097	212	215,388
Contractual Services	148,551	15,553	0	164,104
Materials and Supplies	185,464	68,830	4,938	259,232
Depreciation	94,608	172,304	0	266,912
Other Operating Expenses	5,142	500	20	5,662
<i>Total Operating Expenses</i>	<u>834,537</u>	<u>577,706</u>	<u>5,357</u>	<u>1,417,600</u>
<i>Operating Income (Loss)</i>	(4,578)	201,583	2,342	199,347
Non-Operating Expenses				
Interest and Fiscal Charges	(21,711)	(113,902)	0	(135,613)
<i>Income (Loss) before Contributions and Transfers</i>	<u>(26,289)</u>	<u>87,681</u>	<u>2,342</u>	<u>63,734</u>
Capital Contributions	15,915	34,206	0	50,121
Transfers In	0	0	5,000	5,000
<i>Change in Net Assets</i>	(10,374)	121,887	7,342	118,855
<i>Net Assets Beginning of Year - Restated - (See Note 3)</i>	<u>2,890,236</u>	<u>1,887,203</u>	<u>0</u>	<u>4,777,439</u>
<i>Net Assets End of Year</i>	<u><u>\$2,879,862</u></u>	<u><u>\$2,009,090</u></u>	<u><u>\$7,342</u></u>	<u><u>\$4,896,294</u></u>

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2003

	Water	Sewer	Parking Meter	Total Enterprise Funds
Increase (Decrease) in Cash and Cash Equivalents				
Cash Flows from Operating Activities:				
Cash Received from Customers	\$839,137	\$734,306	\$7,699	\$1,581,142
Cash Payments for Employee Services and Benefits	(403,932)	(321,202)	0	(725,134)
Cash Payments to Suppliers for Goods and Services	(342,363)	(62,855)	(4,938)	(410,156)
Other Operating Revenues	12,627	11,409	0	24,036
Other Operating Expenses	(5,142)	(500)	0	(5,642)
Customer Deposits Received	7,487	4,992	0	12,479
Customer Deposits Returned	(6,591)	(4,396)	0	(10,987)
<i>Net Cash Provided by Operating Activities</i>	<u>101,223</u>	<u>361,754</u>	<u>2,761</u>	<u>465,738</u>
Cash Flows from Noncapital Financing Activities:				
Transfers In	0	0	5,000	5,000
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Capital Assets	(616,421)	(1,022,390)	0	(1,638,811)
Proceeds of Loans	243,184	162,884	0	406,068
Principal Paid on Debt	(55,421)	(168,859)	0	(224,280)
Interest Paid on Debt	(18,550)	(110,921)	0	(129,471)
Principal Paid on Capital Leases	(3,536)	(8,750)	0	(12,286)
Interest Paid on Capital Leases	(727)	(2,081)	0	(2,808)
Capital Contributions	308,792	710,562	0	1,019,354
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(142,679)</u>	<u>(439,555)</u>	<u>0</u>	<u>(582,234)</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(41,456)	(77,801)	7,761	(111,496)
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>1,018,956</u>	<u>162,236</u>	<u>0</u>	<u>1,181,192</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$977,500</u></u>	<u><u>\$84,435</u></u>	<u><u>\$7,761</u></u>	<u><u>\$1,069,696</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
<i>Operating Income (Loss)</i>	(\$4,578)	\$201,583	\$2,342	\$199,347
<i>Adjustments:</i>				
Depreciation	94,608	172,304	0	266,912
<i>(Increase) Decrease in Assets:</i>				
Accounts Receivable	21,805	(33,574)	0	(11,769)
Prepays Items	(2,041)	3,518	0	1,477
<i>Increase (Decrease) in Liabilities:</i>				
Accounts Payable	(8,552)	16,103	20	7,571
Contracts Payable	73	(2,810)	0	(2,737)
Accrued Wages and Benefits Payable	1,305	774	187	2,266
Compensated Absences Payable	(5,579)	(3,978)	0	(9,557)
Vacation Benefits Payable	(389)	1,706	0	1,317
Customer Deposits	896	596	0	1,492
Intergovernmental Payable	3,675	5,532	212	9,419
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$101,223</u></u>	<u><u>\$361,754</u></u>	<u><u>\$2,761</u></u>	<u><u>\$465,738</u></u>

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Fund
December 31, 2003

Assets	
Cash and Cash Equivalents in Segregated Accounts	<u><u>\$2,585</u></u>
Liabilities	
Intergovernmental Payable	\$720
Due to Others	920
Undistributed Monies	<u>945</u>
<i>Total Liabilities</i>	<u><u>\$2,585</u></u>

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 1 – Description of the City and Reporting Entity

The City of Nelsonville (the "City") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the laws of the State of Ohio. The City is organized as a Council/City Manager form of government. Located in Athens County in southern Ohio on the banks of the Hocking River, the City of Nelsonville was chartered under its present form of government in 1995.

The Auditor and Treasurer, both with four year terms, and a seven member Council, with two year terms, are elected. The City Council, in turn, appoints the City Manager. Department directors and public members of various boards and commissions are appointed by the City Manager.

Reporting Entity

The financial reporting entity consists of the primary government, component units, and other governmental organizations included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City. For the City of Nelsonville, this includes various services including police and fire protection, recreation (including parks), planning and zoning, street maintenance and repair, water and water pollution control, and general administrative services. The operation of each of these activities is directly controlled by the Council through the budgetary process.

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

The City participates in a jointly governed organization and an insurance purchasing pool. These organizations are presented in Note 17 and Note 18 to the Basic Financial Statements. The organizations are:

Athens County Regional Planning Commission
Ohio Rural Water Association Workers' Compensation Group Rating Plan

Note 2 – Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

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

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

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

B. Fund Accounting

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

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

General Fund The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

Street Levy Fund The Street Levy Fund is used to account for revenues resulting from local property tax receipts used to maintain the City's streets.

Community Development Block Grant Fund The Community Development Block Grant Fund is used to account for grant monies received for various infrastructure improvements and certain expenditures required for compliance with the grant program.

Aquatic Center Fund The Aquatic Center Fund accounts for all activity related to the City's pool.

Capital Improvements Fund The Capital Improvements Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

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

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

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

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

Parking Meter Fund The Parking Meter Fund is used to account for revenues derived from parking meters and fines within the City.

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

C. Measurement Focus

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

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of changes in revenues, expenses, and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenues, and in the presentation of expenses versus expenditures.

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a 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 year end: municipal income taxes, hotel taxes, charges for services, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), interest, grants, fees, and rentals.

Deferred Revenue Deferred revenues arise 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, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements were met have also been recorded as deferred revenue.

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

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

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

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

E. Budgetary Process

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriation resolution is Council's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by Council. The legal level of control has been established by Council at the fund level. The City Auditor has been authorized to allocate appropriations to the function and object level within each fund.

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

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

F. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

The City has a segregated bank account for monies held separate from the City's central bank account. This depository account is presented as "Cash and Cash Equivalents in Segregated Accounts" since it is not deposited into the City's treasury. The cash of the Mayor's Court is included in this line item.

During 2003, investments were limited to money market mutual funds, which are reported at fair value based on the funds' current share price, and nonnegotiable certificates of deposit. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest is credited to the General Fund; the Street, State Highway, Permissive Tax, and Aquatic Center Special Revenue Funds; and the Capital Improvements Capital Projects Fund. Interest revenue credited to the General Fund during 2003 amounted to \$87,624, which includes \$76,133 assigned from other City funds.

The City utilizes a trustee bank to service its mortgage revenue bonds as principal and interest payments come due. The balances in these accounts are presented on the Statement of Fund Net Assets as Restricted Assets: "Cash and Cash Equivalents with Fiscal Agents" and "Investments with Fiscal Agents". Amounts invested by the trustee bank for the Sewer Enterprise Fund are limited to open-end mutual funds and are reported at fair value, which is based on the funds' current share prices.

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

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2003, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

H. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets in the enterprise funds represent customer deposits and funds restricted as part of the bond indenture for debt service.

I. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The City maintains a capitalization threshold of five hundred dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the asset constructed.

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

Land Improvements	15 - 50 Years
Buildings and Improvements	40 - 50 Years
Machinery and Equipment	5 - 15 Years
Vehicles	5 - 15 Years
Infrastructure	15 - 40 Years

The City's infrastructure consists of U.S. and State roads, City streets, street signals, and water and sewer systems.

J. *Compensated Absences*

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The liability for vacation benefits is recorded as "vacation benefits payable". The balances are to be used by employees following the year originally earned.

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

K. *Contributions of Capital*

Contributions of capital in the proprietary fund financial statements arise from tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted for capital acquisition or construction.

L. *Fund Balance Reserves*

The City reserves those portions of fund balance which are legally segregated for specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. Fund balance reserves have been established for encumbrances and unclaimed monies.

M. *Interfund Transactions*

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

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

N. *Accrued Liabilities and Long-Term Obligations*

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term loans and bonds are recognized as a liability on the governmental fund financial statements when due.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

O. Estimates

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

P. Net Assets

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

Net assets restricted for other purposes includes activities related to the Mayor's Court, the City's parks and pool, law enforcement, and street and state highway maintenance and repairs.

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

Q. Operating Revenues and Expenses

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

Note 3 – Change in Accounting Principles and Restatement of Prior Year Fund Equity

Changes in Accounting Principles For the year ended December 31, 2003, the City has implemented GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus," GASB No. 38, "Certain Financial Statement Note Disclosures," GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences," and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements." At December 31, 2002, there was no effect on fund balances as a result of implementing GASB Statements 37 and 38.

GASB 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the City's programs between business-type activities and governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2002, caused by the reclassification of funds based on the guidance provided in Statement No. 34 and the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the MD&A, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization, or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the city not being able to present budgetary comparisons for the general and each major special revenue fund. The implementation of this statement did not have any effect on the presentation of the City's budgetary financial statements for 2003.

Restatement of Net Assets/Fund Balances During 2003, there were restatements of fund equity for corrections of prior year accrual balances resulting from the overstatement of retainage payable in the Community Development Block Grant Special Revenue Fund. The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	General	Street Levy	Community Development Block Grant	Aquatic Center
Fund Balances				
December 31, 2002	\$430,189	\$71,397	(\$347,486)	\$279,869
Interpretation 6	2,115	179	0	0
Retainage Payable				
Overstatement	0	0	12,750	0
Restated Fund Balances, December 31, 2002	\$432,304	\$71,576	(\$334,736)	\$279,869

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

The transition from governmental fund balance to net assets of the governmental activities continued:

	Capital Improvements	Nonmajor Funds	Totals
Fund Balances			
December 31, 2002	\$1,164,733	\$325,113	\$1,923,815
Interpretation 6	0	0	2,294
Retainage Payable			
Overstatement	0	0	12,750
Restated Fund Balances			
December 31, 2002	\$1,164,733	\$325,113	1,938,859
GASB 34 Adjustments:			
Capital Assets			6,093,626
Pension Obligations			(27,778)
Vacation Benefits Payable			(37,356)
Accrued Interest Payable			(41,571)
Long-Term Liabilities			(2,395,037)
Long-Term (Deferred) Assets			550,566
Governmental Activities Net Assets, December 31, 2002			\$6,081,309

The transition from proprietary fund equity to net assets of the business type activities is as follows:

	Water	Sewer	Total Business-Type Activities
Fund Equity, December 31, 2002	\$1,171,433	(\$307,437)	\$863,996
Capital Assets Understatement	1,398,825	1,387,854	2,786,679
Intergovernmental Receivable Understatement	347,826	778,407	1,126,233
Capital Assets Understatement	396	135	531
Notes Payable Reclassification	(28,222)	28,222	0
Accrued Interest Payable Reclassification	(22)	22	0
Adjusted Net Assets December 31, 2002	\$2,890,236	\$1,887,203	\$4,777,439

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Fund Deficits

At December 31, 2003, the Community Development Block Grant and the Baird Trust Special Revenue Funds had a deficit fund balances of \$308,431 and \$790, respectively. These deficits resulted from the recognition of deferred revenue on grants and payables in accordance with Generally Accepted Accounting Principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

B. Statutory Compliance

The following funds had appropriations in excess of estimated resources plus available balances for the year ended December 31, 2003:

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

	<u>Resources</u>	<u>Appropriations</u>	<u>Excess</u>
Special Revenue Funds:			
Community Development Block Grant	(\$208,008)	\$300,125	\$508,133
Aquatic Center	1,821,230	1,906,400	85,170
Enterprise Fund:			
Sewer	1,501,281	1,722,658	221,377

The City will more closely monitor budgetary procedures pertaining to violations of this nature in the future.

Note 5 – Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP Basis), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Budget Basis) presented for the General Fund and each major special revenue fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unreported Cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statements.

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

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Net Change in Fund Balance

	General	Street Levy	Community Development Block Grant	Aquatic Center
GAAP Basis	\$51,448	\$1,955	\$26,305	(\$31,958)
Revenue Accruals	7,501	0	18,950	(10,584)
Expenditure Accruals	15,050	3,035	(105,955)	862
Beginning of the Year:				
Unreported Cash	192	342	0	0
Prepaid Items	19,585	763	0	963
End of the Year:				
Unreported Cash	(823)	0	0	0
Prepaid Items	(24,544)	(1,098)	0	(1,065)
Advances	(262)	0	262	0
Encumbrances	(55,331)	(105)	0	0
Budget Basis	<u>\$12,816</u>	<u>\$4,892</u>	<u>(\$60,438)</u>	<u>(\$41,782)</u>

Note 6 – Deposits and Investments

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts. Inactive deposits are public deposits that Council has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United State Treasury or any other obligation guaranteed as to principal and interest by the United States;

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

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

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

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is not default of principal, interest or coupons; and,
3. Obligations of the City.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. 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.

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."

Cash on Hand At year end, the City had \$21,919 in unreported cash on hand which is included on the financial statements of the City as part of "Equity in Pooled Cash and Cash Equivalents".

Deposits At year end, the carrying amount of the City's deposits was \$3,373,130 and the bank balance was \$3,460,399. Of the bank balance:

1. \$212,133 was covered by federal depository insurance; and
2. \$3,248,266 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 to a successful claim by the FDIC.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

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. Investments in money market mutual funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Fair Value
Money Market Mutual Fund	<u>\$115,492</u>

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 classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement 9	<u>\$3,395,049</u>	<u>\$115,492</u>
Unreported Cash	(21,919)	0
GASB Statement 3	<u>\$3,373,130</u>	<u>\$115,492</u>

Note 7 - Receivables

Receivables at December 31, 2003, consisted primarily of municipal income taxes, property taxes, permissive motor vehicle license tax, accounts (billings for user charges services including unbilled utility services), intergovernmental receivables arising from entitlements, grants, and shared revenues, and accrued interest on investments.

No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant. All receivables are expected to be collected within one year.

A. Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2003 for real and public utility property taxes represents collections of 2002 taxes. Property tax payments received during 2003 for tangible personal property (other than public utility property) are for 2003 taxes.

2003 real property taxes are levied after October 1, 2003, on assessed value as of January 1, 2003, the lien date. Assessed values are established by State law at 35 percent of the appraised market value. 2003 real property taxes are collected in and intended to finance 2004.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2003 public utility property taxes became a lien December 31, 2002, are levied after October 1, 2003, and are collected in 2004 with real property taxes.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

2003 tangible personal property taxes are levied after October 1, 2002, on the value as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are 25 percent of true value for all property except inventory, which has a rate of 23 percent.

The full tax rate for all City operations for the year ended December 31, 2003, was \$10.80 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

Real Property	\$24,162,540
Public Utility Real Property	14,541,140
Public Utility Tangible Personal Property	2,305,550
Tangible Personal Property	4,038,260
Total Assessed Value	<u><u>\$45,047,490</u></u>

Real property taxes are payable annually and semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable at September 20.

The County Treasurer collects property taxes on behalf of all taxing districts within the county, including the City of Nelsonville. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2003 and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2003 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, delinquent property taxes have been recorded as revenue, while the remainder of the receivable has been deferred.

B. Income Taxes

The City levies a municipal income tax of 1.75 percent on substantially all earned income arising from employment, residency, or business activities within the City as well as income of residents earned outside of the City; however, the City allows a credit for income taxes paid to another municipality up to the 1.75 percent.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual tax payers are required to pay their estimated tax quarterly and file a declaration annually.

Income tax proceeds are to be used for the purposes of general municipal operations, aquatic center operations, maintenance, new equipment, extension and enlargement of municipal services and facilities, and capital improvements of the City of Nelsonville.

C. Intergovernmental Receivables

A summary of intergovernmental receivables follows:

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

	Amounts
Governmental Activities:	
Kilowatt Per Hour	\$4,421
Local Government	107,513
Homestead and Rollback	24,029
Gasoline Tax	46,154
Motor Vehicle License Tax	8,688
Permissive Tax	2,707
Estate Tax	19,202
Ohio Public Works Commission	278,425
Miscellaneous	571
Total Governmental Activities	491,710
Business-Type Activities:	
Community Development Block Grant	157,000
Total Business-Type Activities	157,000
Total Invergovernmental Receivables	\$648,710

Note 8 – Capital Assets

Capital asset activity for the year ended December 31, 2003, was as follows:

	Balance 12/31/02	Increases	Decreases	Balance 12/31/03
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$397,263	\$0	\$0	\$397,263
Total Capital Assets not being Depreciated	397,263	0	0	397,263
Capital Assets being Depreciated:				
Land Improvements	166,615	0	0	166,615
Buildings and Improvements	2,920,889	1,749	0	2,922,638
Furniture, Fixtures, and Equipment	677,803	32,476	0	710,279
Vehicles	1,055,172	21,468	0	1,076,640
U.S. and State Roads	606,496	6,301,719	0	6,908,215
City Streets	4,114,783	758,086	0	4,872,869
Street Signals	683,618	0	0	683,618
Total Capital Assets being Depreciated	10,225,376	7,115,498	0	17,340,874
Less Accumulated Depreciation:				
Land Improvements	(10,822)	(6,743)	0	(17,565)
Buildings and Improvements	(284,281)	(65,789)	0	(350,070)
Furniture, Fixtures, and Equipment	(378,171)	(56,480)	0	(434,651)
Vehicles	(491,501)	(74,198)	0	(565,699)
U.S. and State Roads	(439,710)	(187,868)	0	(627,578)
City Streets	(2,700,802)	(223,512)	0	(2,924,314)
Street Signals	(223,726)	(29,914)	0	(253,640)
Total Accumulated Depreciation	(4,529,013)	(644,504) *	0	(5,173,517)
Total Capital Assets being Depreciated, Net	5,696,363	6,470,994	0	12,167,357
Governmental Activities Capital Assets, Net	\$6,093,626	\$6,470,994	\$0	\$12,564,620

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

	Balance 12/31/02	Increases	Decreases	Balance 12/31/03
Business-Type Activities:				
Capital Assets not being Depreciated:				
Land	\$155,955	\$0	\$0	\$155,955
Total Capital Assets not being Depreciated	155,955	0	0	155,955
Capital Assets being Depreciated:				
Land Improvements	24,752	0	0	24,752
Furniture, Fixtures, and Equipment	923,952	21,381	0	945,333
Vehicles	97,405	0	0	97,405
Infrastructure	7,619,092	1,602,972	0	9,222,064
Total Capital Assets being Depreciated	8,665,201	1,624,353	0	10,289,554
Less Accumulated Depreciation:				
Land Improvements	(15,119)	(744)	0	(15,863)
Furniture, Fixtures, and Equipment	(667,539)	(32,041)	0	(699,580)
Vehicles	(69,705)	(7,000)	0	(76,705)
Infrastructure	(2,915,606)	(227,127)	0	(3,142,733)
Total Accumulated Depreciation	(3,667,969)	(266,912)	0	(3,934,881)
Total Capital Assets being Depreciated, Net	4,997,232	1,357,441	0	6,354,673
Business-Type Activities Capital Assets, Net	<u>\$5,153,187</u>	<u>\$1,357,441</u>	<u>\$0</u>	<u>\$6,510,628</u>

*Depreciation expense was charged to governmental programs as follows:

General Government	\$18,301
Security of Persons and Property:	
Police	32,593
Fire	64,074
Transportation	462,242
Leisure Time Activities	60,912
Community Environment	6,382
Total Depreciation Expense	<u>\$644,504</u>

In 2003, the Ohio Department of Transportation completed the U.S. Route 33 reconstruction through the City of Nelsonville. The \$6,301,719 project is reflected as an increase to the City's U.S. and State Roads capital assets as noted above and as a capital grant and capital outlay in the Capital Improvements Capital Projects Fund.

Note 9 – Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City contracts with Municipal Insurance Alliance, through the McFadden Insurance Services Company, with a blanket insurance policy with the following coverage limits and deductibles:

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Property	Deductible	Limits of Coverage
Real Property	\$1,000	\$8,897,134
General Liability:		
Per Occurrence	1,000	1,000,000
Annual Aggregate	1,000	3,000,000
Inland Marine	500	512,197
Wrongful Acts Liability:		
Per Occurrence	1,000	1,000,000
Annual Aggregate	1,000	1,000,000
Vehicles:		
Comprehensive	500	1,000,000
Collision	1,000	1,000,000
Employee Dishonesty	250	25,000
Police Professional:		
Per Occurrence	1,000	1,000,000
Annual Aggregate	1,000	1,000,000
Umbrella Coverage:		
Per Occurrence	0	4,000,000
Annual Aggregate	0	4,000,000

The City Manager reviews all claims. Settlements have not exceeded coverage in any of the last three years. There have been no significant reductions in insurance coverage from last year.

For 2003, the City participated in the Ohio Rural Water Association Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool (see Note 18). The Plan is intended to achieve lower workers' compensation rates while establishing safer working conditions and environments for the participants. The worker's compensation experience of the participating entities is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. In order to allocate the savings derived by formation of the Plan, and to maximize the number of participants in the Plan, the Plan's executive committee annually calculates the total savings which accrued to the Plan through its formation. The savings is then compared to the overall savings percentage of the Plan. The Plan's executive committee then collects rate contributions from or pays rate equalization rebates to the various participants. Each year the City pays an enrollment fee to the Plan to cover the costs of administering the program.

The City may withdraw from the Plan if written notice is provided sixty days prior to the prescribed application deadline of the Ohio Bureau of Workers' Compensation. However, the participant is not relieved of the obligation to pay any amounts owed to the Plan prior to withdrawal, and any participant leaving the Plan allows the representative of the Plan to access loss experience for three years following the last year of participation.

Note 10 – Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both employer and member contributions (employer contributions vest over five years at 20% per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town Street, Columbus, Ohio 45215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2003 was 8.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$81,298, \$52,337, and \$84,043, respectively; 87.86 percent has been contributed for 2003 and 100 percent for 2002 and 2001. Contributions to the member-directed plan for 2003 were \$261 made by the City and \$163 made by plan members.

B. Police and Firemen's Disability and Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for the years ended December 31, 2003, 2002, and 2001 were \$41,465, \$51,014, and \$64,107 respectively, equal to the required contributions for each year. The full amount has been contributed for 2002 and 2001. 69.56 percent has been contributed for 2003 with the remainder being reported as a liability.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and fire fighters in 1967. As of December 31, 2003, the unfunded police and fire fighters liability of the City was \$81,158 and \$937, respectively, payable in semi-annual payments through the year 2035. This is an accounting liability of the City which will not vary.

Note 11 – Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 5 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4 percent annually.

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

The number of active contributing participants was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$47,543. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader 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 allowances toward specific, medical expenses, much like a Medical Spending Account.

B. Ohio Police and Fire Pension Fund

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

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2003. 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. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2003 that were used to fund postemployment benefits were \$17,842 for police and \$6,874 for firefighters. The OP&F's total health care expense for the year ended December 31, 2002, (the latest information available) was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

Note 12 – Other Employee Benefits

A. Insurance

The City provides \$10,000 in life insurance and accidental death and dismemberment insurance to all of its full-time employees through Medical Life.

The City provides comprehensive major medical insurance through Medical Mutual of Ohio. Monthly premiums are \$395.35 for single coverage and \$1,133.96 for family coverage. Vision insurance is provided through the Vision Service Plan, Inc. The premiums are \$11.88 for single coverage and \$32.51 for family coverage. Dental insurance is provided through the Guardian Insurance Plans. The premiums are \$23.12 for single coverage and \$85.98 for family coverage. The City pays 100% of the premiums for both single and family plans for vision insurance and 80% of the premiums for both single and family plans for all other insurance offered.

B. Compensated Absences

The criteria for determining vested sick leave benefits are derived from negotiated agreements and State laws. Upon retirement, all employees with ten or more years of service with the City are paid twenty-five percent of their sick leave up to a maximum of 240 hours. Upon voluntary termination, death, or retirement, all employees will receive 100% of vacation earned and not previously taken.

Note 13 – Capital Leases – Lessee Disclosure

During 2003, the City entered into six new capital leases for the purchase of computers and a vehicle. In prior years, the City had entered into several capital leases for the purchase of vehicles and equipment.

The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments made from governmental funds have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program expenditures on a budgetary basis.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

The assets acquired through capital leases are as follows:

	Governmental Activities	Business-Type Activities
Machinery and Equipment	\$44,042	\$57,586
Vehicles	641,253	19,000
Less: Accumulated Depreciation	(182,319)	(22,443)
Total	<u>\$502,976</u>	<u>\$54,143</u>

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2003.

Year Ending December 31,	Governmental Activities	Business-Type Activities	Total
2004	\$83,433	\$15,800	\$99,233
2005	69,934	15,800	85,734
2006	64,043	2,982	67,025
2007	54,031	0	54,031
2008	53,064	0	53,064
2009-2012	<u>212,255</u>	<u>0</u>	<u>212,255</u>
Total Minimum Lease Payments	536,760	34,582	571,342
Less: Amount Representing Interest	(93,016)	(3,611)	(96,627)
Present Value of Minimum Lease Payments	<u>\$443,744</u>	<u>\$30,971</u>	<u>\$474,715</u>

Note 14 – Long-Term Obligations

A schedule of changes in long-term obligations of the City during 2003 follows:

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

	Principal Outstanding 12/31/02	Additions	Reductions	Principal Outstanding 12/31/03	Due within One Year
Business-Type Activities:					
OWDA Sylvania Avenue Sewer Loan - 2.20%	\$454,632	\$0	\$24,910	\$429,722	\$25,461
OWDA Sewer Improvements Loan - 8.26%	731,131	0	43,319	687,812	46,896
OWDA Sewer Digester Loan - 2.20%	908,947	0	39,288	869,659	39,796
OWDA Sewer Route 33 Improvements Loan - 2%	124,188	78,651	6,342	196,497	12,811
OWDA Water Improvements Loan - 2%	28,222	236,434	5,421	259,235	10,951
Total OWDA Loans	2,247,120	315,085	119,280	2,442,925	135,915
General Obligation Bonds:					
Water Sysytem - 6.70 - 7.50%	425,000	0	50,000	375,000	50,000
Mortgage Revenue Bonds:					
Sewer System - 8.50%	70,000	0	55,000	15,000	15,000
Capital Leases	39,890	3,367	12,286	30,971	13,605
Compensated Absences	21,500	2,159	11,715	11,944	0
Total Business-Type Activities	\$2,803,510	\$320,611	\$248,281	\$2,875,840	\$214,520
Governmental Activities:					
Bond Anticipation Note - 3.71%	1,825,000	1,625,000	1,825,000	1,625,000	1,625,000
Dell Loan - 14.99%	4,592	0	1,936	2,656	2,248
Capital Leases	472,602	29,192	58,050	443,744	62,775
Police and Fire Pension Liability	83,323	0	1,228	82,095	1,281
Compensated Absences	9,520	10,066	2,213	17,373	551
Total Governmental Activities	\$2,395,037	\$1,664,258	\$1,888,427	\$2,170,868	\$1,691,855

Principal and interest requirements to retire the Sylvania Avenue and Sewer Improvements OWDA Loan liabilities at December 31, 2003, are as follows:

Year Ended December 31,	Principal	Interest	Total
2004	\$72,357	\$66,128	\$138,485
2005	76,794	61,691	138,485
2006	81,563	56,922	138,485
2007	86,691	51,793	138,484
2008	92,208	46,277	138,485
2009-2013	559,704	137,721	697,425
2014-2018	148,217	8,271	156,488
	\$1,117,534	\$428,803	\$1,546,337

The 1998 OWDA Sylvania Sewer Loan, originally issued for \$479,002, and the 1989 OWDA Sewer Improvements Loan, originally issued for \$1,078,837, represent amounts borrowed for the purpose of improving the sewer system and will be repaid through Sewer Enterprise Fund revenue.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

The OWDA Sewer Route 33 Improvements Loan, authorized in the amount of \$310,000, and the OWDA Sewer Digester Loan, authorized in the amount of \$950,402, are being used to finance the sewer treatment plant expansion and improvements. The loan activity is reflected in the Sewer Enterprise Fund which received the proceeds and which will repay the debt. These loans have not been fully drawn down as of December 31, 2003, and therefore, the final amount of each loan and the amortization schedule have not been established.

The OWDA Water Improvements Loan, authorized in the amount of \$265,000, is being used to finance water plant expansions and improvements. The loan activity is reflected in the Water Enterprise Fund which received the proceeds and will repay the debt. This loan has not been fully drawn down as of December 31, 2003, and therefore, the final amount of the loan and the amortization schedule have not been established.

Principal and interest requirements to retire bonds outstanding at December 31, 2003, are as follows:

Year Ended December 31,	G. O. Bonds Principal	G. O. Bonds Interest	Revenue Bonds Principal	Revenue Bonds Interest	Total
2004	\$50,000	\$1,863	\$15,000	\$1,275	\$68,138
2005	55,000	2,063	0	0	57,063
2006	60,000	2,250	0	0	62,250
2007	65,000	2,437	0	0	67,437
2008	70,000	2,625	0	0	72,625
2009	75,000	2,812	0	0	77,812
	<u>\$375,000</u>	<u>\$14,050</u>	<u>\$15,000</u>	<u>\$1,275</u>	<u>\$405,325</u>

The 1989 general obligation bonds, originally issued for \$825,000, represent amounts borrowed from the Farmer's Home Administration for the purpose of improving the water system. The bonds will be repaid from Water Enterprise Fund revenue.

The 1974 mortgage revenue bonds, originally issued for \$485,000, represent amounts borrowed from the Huntington National Bank for the purpose of improving the sewer system. The bonds will be repaid from Sewer Enterprise Fund revenue.

The City has a long-term note payable that is backed by the full faith and credit of the City. The note was issued to finance the construction of the Aquatic Center and the purchase of the City Hall. On March 6, 2004, the City rolled over the bond anticipation note payable and it will mature on March 5, 2005.

Principal and interest requirements to retire the Dell Loan liability at December 31, 2003, are as follows:

Year Ended December 31,	Principal	Interest	Total
2004	\$2,248	\$247	\$2,495
2005	408	8	416
	<u>\$2,656</u>	<u>\$255</u>	<u>\$2,911</u>

The 2002 Dell Loan, originally issued for \$5,999, represents amounts borrowed from Dell Financing for the purchase of new computer systems. The loan will be repaid revenues received from fines, licenses, and permits in the DUI Enforcement Special Revenue Fund.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Principal and interest requirements to retire the Police and Fire Pension liability at December 31, 2003, are as follows:

Year Ended December 31,	Principal	Interest	Total
2004	\$1,280	\$3,476	\$4,756
2005	1,335	3,421	4,756
2006	1,393	3,363	4,756
2007	1,453	3,303	4,756
2008	1,515	3,241	4,756
2009-2013	8,609	15,171	23,780
2014-2018	10,623	13,157	23,780
2019-2023	13,109	10,671	23,780
2024-2028	16,177	7,603	23,780
2029-2033	19,962	3,818	23,780
2034-2035	6,639	280	6,919
	<u>\$82,095</u>	<u>\$67,504</u>	<u>\$149,599</u>

The police and fire pension liability is paid from general property tax revenues from the General Fund. The police and fire pension liability payments are reflected as program expenditures. Compensated absences for sick leave liabilities will be paid from the General Fund, the Street Levy and Aquatic Center Special Revenue Funds, and the Water and Sewer Enterprise Funds. Capital lease obligations are paid from general property tax revenues from the General Fund and Street Levy Special Revenue Fund, income tax revenues from the Aquatic Center Special Revenue Fund, fines, licenses, and permit revenues in the Mayor's Court Computerization Special Revenue Fund, and charges for services in the Water and Sewer Enterprise Funds.

The City's overall legal debt margin was \$4,729,986 at December 31, 2003.

Note 15 – Interfund Transactions

Interfund transfers for the year ended December 31, 2003, consisted of the following:

	Transfers In	Transfers Out
General Fund	\$0	\$5,000
Parking Meter Enterprise Fund	5,000	0
Total	<u>\$5,000</u>	<u>\$5,000</u>

The General Fund made the \$5,000 transfer to the Parking Meter Enterprise Fund when the new fund was created.

The short-term interfund loan was made by the General Fund to the Community Development Block Grant Special Revenue Fund in the amount of \$262 to alleviate a deficit cash balance.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 16 – Contractual Commitments

As of December 31, 2003, the City had contractual commitments for the following projects:

Project	Fund	Contract Amount	Amount Expended	Balance at 12/31/03
Terrace Drive Improvements	Street	\$10,000	\$0	\$10,000
Sewer Lift Station	Sewer	15,000	8,250	6,750
State Route 278 Sewer	Sewer	33,000	3,300	29,700
State Route 278 Water	Water	30,000	28,500	1,500
Total		<u>\$88,000</u>	<u>\$40,050</u>	<u>\$47,950</u>

Note 17 – Jointly Governed Organization

The Athens County Regional Planning Commission was formed to influence favorably the future economic, physical, and social development of Athens County. Membership is composed of the three Athens County Commissioners, one representative from each of the participating municipalities, including the City of Nelsonville, and one representative for every five thousand County residents appointed by the Commissioners. The Commission is not dependent upon the City of Nelsonville for its continued existence. In 2003, the City made no contributions to the Commission.

Note 18 – Insurance Purchasing Pool

The City is participating in a group rating plan for worker's compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Rural Water Association Workers' Compensation Group Rating Plan was established through the Ohio Rural Water Association, a non-profit membership organization, as a group purchasing pool.

A group executive committee is responsible for calculating annual rate contributions and rebates, approving the selection of a third party administrator, reviewing and approving proposed third party fees, fees for risk management services and general management fees, determining ongoing eligibility of each participant and performing any other acts and functions which may be delegated to it by the participating employers. The group executive committee is appointed by the Governing Board of the Ohio Rural Water Association. The Board shall consist of eleven voting members as follows: up to nine, but no less than five from public or non-profit water supply districts or companies; not more than two from waste water systems; not more than one from municipalities over 10,000 in population; not more than one from municipalities under 10,000 in population; one who is a manager of a member system; and one who is an associate member, or employee of an associate member. These members are elected for the ensuing year by the participants at the meeting held in April of each year. No participant can have more than one member of the Board of Directors in any year.

Note 19 – Contingent Liabilities

A. Grants

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. 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, 2003.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

B. Litigation

The City of Nelsonville is currently party to pending litigation proceedings seeking damages or injunctive relief as confirmed by the City Law Director. The outcome and possible effects on the financial statements cannot be determined at this time.

**CITY OF NELSONVILLE
ATHENS COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2003**

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass-Through Entity Number	<u>Disbursements</u>
UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Pass-Through Ohio Department of Development:</i>			
Community Development Block Grant - State's Program	14.228	A-X-01-151-1 A-W-02-151-1	\$ 300,000 <u>340,000</u>
Total Community Development Block Grant - State's Program			<u>640,000</u>
Total United States Department of Housing and Urban Development			640,000
UNITED STATES DEPARTMENT OF HOMELAND SECURITY			
<i>Passed through Ohio Department of Public Safety:</i>			
Public Assistance Grants	97.036	009-53886	<u>8,710</u>
Total Public Assistance Grants			<u>8,710</u>
Total United States Department of Homeland Security			<u>8,710</u>
Total Federal Awards Expenditures			<u>\$ 648,710</u>

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

**CITY OF NELSONVILLE
ATHENS COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2003**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – U.S. DEPARTMENT OF HOMELAND SECURITY FEDERAL AWARDS

The Federal Homeland Security Act of 2002 established the Department of Homeland Security (the Department) to consolidate functions of other Federal agencies related to homeland security. Effective January 23, 2003, the Department began to administer certain Federal awards the City previously received from another Federal agency. The accompanying Schedule of Federal Awards Expenditures reports all such 2003 award amounts under the Department's Catalog of Federal Domestic Assistance (CFDA) number. The purposes and compliance requirements of this program has not changed. A comparison of the former Federal agency and CFDA number the City has reported in its Schedule compared with the Department's CFDA follows:

<u>Previous Federal Agency</u>	<u>CFDA No. used in 2002</u>	<u>Homeland Security CFDA No. used for 2003</u>
Federal Emergency Management Agency	83.544	97.036



Auditor of State Betty Montgomery

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

City of Nelsonville
Athens County
211 Lake Hope Drive
P.O. Box 370
Nelsonville, Ohio 45764

To the City Council:

We have audited the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Nelsonville, Athens County, Ohio (the City), as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 20, 2004, wherein we noted the City adopted Governmental Accounting Standards Board Statements 34, 37, 38, and 41 and Interpretation 6. 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.

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 we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2003-001 through 2003-003. We also noted certain immaterial instances of noncompliance that we have reported to the City's management in a separate letter dated September 20, 2004.

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 basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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 being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the City's management in a separate letter dated September 20, 2004.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

This report is intended for the information and use of the audit committee, 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.

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

Betty Montgomery
Auditor of State

September 20, 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 Nelsonville
Athens County
211 Lake Hope Drive
P.O. Box 370
Nelsonville, Ohio 45764

To the City Council:

Compliance

We have audited the compliance of the City of Nelsonville, Athens 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 for the year ended December 31, 2003. The City's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings. 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 item 2003-004 in the accompanying Schedule of Findings, the City did not comply with requirements regarding cash management that are applicable to its Community Development Block Grant (CFDA #14.228). Compliance with this requirement is necessary, in our opinion, for the City to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2003.

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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, 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

September 20, 2004

**CITY OF NELSONVILLE
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
DECEMBER 31, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under §.510?	Yes
(d)(1)(vii)	Major Programs (list):	Community Development Block Grant, CFDA #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 NELSONVILLE
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
DECEMBER 31, 2003
(Continued)**

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

FINDING NUMBER 2003-001

Noncompliance Citation

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

There are several exceptions found in Section 5705.41(D)(1) to the standard requirement, stated above:

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

Amounts of less than \$100 for counties, or less than \$1,000 (\$3,000 after April 7, 2003) for other political subdivisions, may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Fifty-eight (58%) of the expenditures tested did not have the prior certification of the City Auditor and neither of the above exceptions had been met.

We recommend the City's employees and officials obtain the prior certification of the City Auditor prior to a commitment being incurred.

FINDING NUMBER 2003-002

Noncompliance Citation

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

Appropriations exceeded total estimated resources at March 31, 2003, as follows:

Fund	Total Estimated Resources	Appropriation Authority	Variance
Aquatic Center	\$ 1,821,500	\$ 1,906,400	\$ (84,900)
Sewer	947,746	1,104,395	(156,649)

**CITY OF NELSONVILLE
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
DECEMBER 31, 2003
(Continued)**

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

**FINDING NUMBER 2003-002
(Continued)**

Noncompliance Citation (Continued)

Ohio Rev. Code Section 5705.39 (Continued)

Appropriations exceeded total estimated resources at December 31, 2003, as follows:

Fund	Total Estimated Resources	Appropriation Authority	Variance
CDBG	\$ (208,008)	\$ 300,125	\$ (508,133)
Aquatic Center	1,821,230	1,906,400	(85,170)
Sewer	1,501,281	1,722,658	(221,377)

This resulted in more money being appropriated than was actually available for expenditure.

We recommend the City Auditor monitor total estimated resources and appropriations and ensure that appropriations do not exceed estimated resources.

FINDING NUMBER 2003-003

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision from making an expenditure unless it has been properly appropriated. Auditor of State Bulletin 2000-008 provides that when a local government is the beneficiary of an on-behalf-of program agreement, the cash value benefit of the program received under the agreement should be recorded as memorandum receipts and disbursements in the year on-behalf-of disbursements are made.

Expenditures exceeded appropriations at December 31, 2003 in the following fund:

Fund	Appropriation Authority	Actual Expenditures	Variance
Capital Improvement	\$ 697,235	\$ 6,877,068	\$ (6,179,833)

This was caused by the failure to budget for the on-behalf-of payments made by the State of Ohio for the U.S. Route 33 rebuilding project in the City. The State of Ohio's on-behalf-of expenditures for this project totaled \$6,301,179.

We recommend the City Auditor record not only the revenues and expenditures related to "on-behalf" payments made for the City, but also record the budgetary amounts as well. We further recommend the City Auditor review Auditor of State Bulletin 2000-008.

**CITY OF NELSONVILLE
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
DECEMBER 31, 2003
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2003-004
CFDA Title and Number	Community Development Block Grant – State’s Program CFDA # 14.228
Federal Award Number / Year	A-X-01-151-1 A-W-02-151-1
Federal Agency	U.S. Department Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

Cash Management – Noncompliance Citation

The Office of Community and Housing Partnerships (OHCP) Financial Management Rules and Regulations Section (A)(3)(f) states grantees must develop a cash management system to ensure compliance with the “Fifteen-Day Rule” relating to prompt disbursement of funds. This rule states that funds drawn down should be limited to amounts that will enable the grantee to disburse the funds on hand to a balance of less than \$5,000 within fifteen days of receipt of any funds.

The City did not always disburse funds within fifteen days. Of the 5 request for payments, 2 of the subsequent disbursements were not made within the 15 day period and the balance on hand exceeded \$5,000 in each instance. One of the two subsequent payments was not made until 17 days after receipt of the funds for \$123,565.98, and the other was not made until 87 days after receipt of the funds for \$76,551.67. A total of \$640,000 was expended under this program.

We recommend the City ensure its compliance with this Section and disburse funds within 15 days after receipt. We further recommend the City review the OHCP Financial Management Rules and Regulations handbook.

**CITY OF NELSONVILLE
ATHENS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 §.315(b)
DECEMBER 31, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2002-001	A material noncompliance citation was issued under Ohio Rev. Code Section 5705.36 for estimated resources exceeding actual revenue plus unencumbered cash and appropriations were greater than actual revenue plus unencumbered cash.	No	Not Corrected: This situation is no longer as significant. The item is included in the current audit Management Letter.
2002-002	A material noncompliance citation was issued under Ohio Rev. Code Section 5705.39 for appropriations exceeding estimated resources.	No	Not Corrected: This item is repeated in the current audit Schedule of Findings as finding 2003-002.
2002-003	A material noncompliance citation was issued under Ohio Rev. Code Section 5705.41(D) for not properly certifying the availability of funds.	No	Not Corrected: This item is repeated in the current audit Schedule of Findings as finding 2003-001.

**CITY OF NELSONVILLE
ATHENS COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 §.315(c)
DECEMBER 31, 2003**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2003-004	If CDBG grants are received by the City in the future, the City will make every attempt possible to expend CDBG funds within 15 days of receipt. If a problem occurs with that timetable, the City will contact the Ohio Department of Development for guidance.	N/A	Fred Holmes, City Manager Aileen Lehman, City Auditor



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

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
NOVEMBER 4, 2004**